

# Notice of Meeting and Agenda



## Audit Committee

**Venue:** Virtual Meeting,

**Date:** Tuesday, 28 September 2021

**Time:** 11:00

**Executive Director : Place**

**Contact:**

Clerk Name: Democratic Services  
Clerk Telephone:  
Clerk Email: [democratic.services@midlothian.gov.uk](mailto:democratic.services@midlothian.gov.uk)

**Further Information:**

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

**Privacy notice:** Please note that this meeting may be recorded. The recording may be publicly available following the meeting. If you would like to know how Midlothian Council collects, uses and shares your personal information, please visit our website: [www.midlothian.gov.uk](http://www.midlothian.gov.uk)

---

**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 Meeting held on 17 August 2021 - For Approval 3 - 12

**4.2** Action Log 13 - 14

**5 Public Reports**

---

**5.1** Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2021 - Report by EY, External Auditors 15 - 72

**5.2** Annual Accounts for the year ended 31 March 2021 – Report by Chief Officer Corporate Solutions 73 - 184

**5.3** Follow-Up Review of Completed Internal Audit Recommendations - Report by Chief Internal Auditor 185 - 192

**5.4** Internal Audit Work to August 2021 - Report by Chief Internal Auditor 193 - 202

**5.5** Audit Scotland Fraud and Irregularity Update 2020-21 - Report by Chief Internal Auditor 203 - 208

**5.6** Risk Management Update, Quarter 1 2021/22 - Report by Chief Officer: Place 209 - 270

**5.7** Social Housing stock reconciliation - Report by Executive Director: Place 271 - 280

**6 Private Reports**

---

No items for discussion

**7 Date of Next Meeting**

---

The next meeting will be held on Tuesday 7 December 2021 at 11.00 am

# Minute of Meeting



## Audit Committee

Date	Time	Venue
Tuesday 17 August 2021	11.00am	MS Team – Virtual Meeting

### Present:

Mike Ramsay (Independent Chair)
Councillor Cassidy
Councillor Milligan
Councillor Muirhead
Councillor Parry
Councillor Smaill
Mr de Vink (Independent Member)

### In attendance:

Grace Vickers	Chief Executive
Alan Turpie	Legal Services Manager/Monitoring Officer
Kevin Anderson	Executive Director Place
Morag Barrow	Joint Director Health and Social Care
Fiona Robertson	Executive Director Children ,Young People and Partnerships
Gary Fairley	Chief Officer Corporate Solutions
Derek Oliver	Chief Officer, Place
Jill Stacey	Chief Internal Auditor
Myra Forsyth	Quality and Scrutiny Manager
Saty Kaur	Executive Business Manager, Resources
Grace Scanlin	External Auditor, E.Y. ( part meeting)
Janet R Ritchie	Democratic Services Officer

## 1. Welcome and Apologies

---

The Chair, Mike Ramsay welcomed everyone to the meeting. Apologies were received from Councillor Hardie.

## 2. Order of Business

---

Order of business as outlined in the Agenda.

## 3. Declarations of interest

---

No declarations of interest were received.

## 4. Minutes of Previous Meetings

---

- 4.1** The minute of the meeting of 22 June 2021 was submitted and approved as a correct record having been proposed by Councillor Milligan, seconded by Councillor Muirhead subject to the comments detailed below:

Mr de Vink and the Chair raised the following amendments

With reference to Item 5.4 'Wider Scope Review of Treasury Management' (Page 9, paragraph 6) should read 'managed to achieve **one** of the lowest'

The Chair also highlighted the correct spelling for **Croydon** and with reference to Item 5.4 'Wider Scope Review of Treasury Management' (P11 paragraph 3) reference to the payment of £30,000 transferred to Croydon should read payment of **£13m**.

### 4.2 Matters Arising:

Councillor Smaill commented on a press release issued by the Council which stated that the yield from the Croydon deposits would pay for 10 Teaching assistants. He commented that this ignored the fact that there will be a cost of carry and therefore there cannot be a benefit of this nature because the Council have considerably more debt than money on deposit. He indicated that he felt firstly, that it was improper to issue this press release prior to the consideration of the Ernest Young report by the relevant bodies within Midlothian Council and secondly that it was misleading to the public.

Mr Fairley responded and advised that the Treasury Management Strategy approved by Council was to cash back the Council reserves, that the Council was not borrowing in advance of need or to invest and so there was no cost of carry. Mr Fairley also advised that the Council was actually in an under borrowed position, i.e, it had not secured the full borrowing to finance its capital financing requirement.

Councillor Smaill further debated that the £13m was part of the overall Treasury strategy which involves paying interest on external borrowing at the average

rate of 3.1% but in the case of Croydon the interest rate received on the deposit was 1.85% and that he did not agree with Section 95 officer's response.

Councillor Cassidy stated that he agreed that what Councillor Smaill said was correct and that the statement going out to the public was premature.

Councillor Parry noted that the day before this meeting Croydon had a full Council meeting and it was revealed that they had £310m in lost business rates. She commented that early concerns should have been brought back to this Committee and also raised concerns regarding the statement that had been issued to the public. Councillor Parry then asked if any of the recent developments were a concern to the Council and also that she felt they were not receiving full and frank information as Councillors or as Audit Committee members.

The Chair highlighted that there had been a lengthy debate on this topic at the last meeting and it is not appropriate to reopen these discussion again although he did acknowledge this did not take into account the press release.

Councillor Cassidy then raised the comment from EY with regards to the checklist completed retrospectively and asked if this is normal practice. In response Mr Fairley advised that with regards to normal practice that he understood that other local authorities do utilise such checklists and indeed that the Council had been approached by other Councils with a view to adopting our practice. He confirmed that that the appropriate checks had been carried out at the time and that the checklist now provided a means to formally record these. He also advised that in respect of the deposit place with Croydon there was no reason to suggest that that Croydon would not meet their obligations to Midlothian in full.

There followed a lengthy discussion on the deposit placed with Croydon.

Mr Fairley reiterated that the Treasury Management Strategy within which Officers operated was endorsed by this Committee and approved by Council. He also reiterated that because the Council was under borrowed, ie it has not secured the external borrowing to fully fund its capital financing requirement, that there was no cost of carry in respect of any borrowing.

It was also noted that if the Committee did not agree with the strategy when it considered it in January 2021 that there had been the opportunity to propose amendments before it was considered and approved by Council. It was also noted that Midlothian was recognised as one of the top performing Council in Scotland for Treasury Management.

In seeking to move on with the remainder of the agenda, the Chair advised that the Committee would have the opportunity to make recommendations to Council when it considers the Treasury Management Strategy for 2021/22 and noted that Officers were operating within the terms of the current Strategy endorsed by Audit Committee and approved by Council

#### 4.2 The Action log was submitted and the following noted:

- 1) 'Internal Audit Annual Assurance Report– Risk Management Policy and Strategy': December 2021
- 2) Annual Governance Statement 2020/21 – Financial Improvement Updates: Completed
- 3) Financial Reports – Council Meeting: August 2021
- 4) Internal Audit Recommendations: September 2021
- 5) Treasury Management: Completed
- 6) February Briefing on Treasury Management: Completed
- 7) Report on reconciliation of Social Housing work in progress and completions: September 2021
- 8) Property Maintenance: TBC
- 9) Council House Building Programme– Completed.

## 5. Public Reports

Report No.	Report Title	Presented by:
5.1	Audit Committee Annual Report 2020/21	Chair of Audit Committee
<b>Outline of report and summary of discussion</b>		
<p>The Chair in presenting this report advised this was normally produced in June and that it was a summary of what has been before the Audit Committee during the year and was for a matter of record rather than for discussion. He further advised that this followed on from Self-assessment in May 2021 which referred to improvements identified and activities to improve effectiveness. He further provided some key highlights from the report and the appendices attached.</p> <p>He then asked Members if they have any comments prior this being presented to Council at the October meeting.</p> <p>Mr de Vink commented that the report was detailed and impressive and that never in the past has he seen a Chairman being so extensive in the report produced. He further commented that it raised a lot of very important issues.</p> <p>The Chair thanked Mr de Vink for his comments and confirmed that the Jill Stacey provides most of the details contained within the report.</p> <p>The Chief Executive then referred to three items as a way of an update for Members. Firstly she was pleased that there was a focus on strategic risk management and can update this committee that there is a paper being presented</p>		

to next meeting of Council to request a Seminar on assess strategic risk including legislative change, climate change, cyber security and future pandemic planning.

In terms of the second last paragraph in the report the Chief Executive confirmed that audit matters are a standing item on Corporate Management Team agenda and are therefore discussed and monitored fortnightly by senior officers and confirmed that the Chief Internal Auditor attended the Corporate Management Team (CMT) meetings. The Chief Executive then advised that at the meeting of CMT last week discussion took place regarding five outstanding audit actions from the previous year and confirmed that since then one has now been signed off and for the four others Officers are currently working on these and gave assurances to the Audit committee that the actions are taken seriously and even with the restrictions due to the pandemic the vast majority of these have been progressed. The Chief Executive then confirmed that two Business Managers had been appointed to the two directorates who will assist in the proactive management of the audit actions.

The Chief Executive advised with regards to the last paragraph in the report this is a matter governed by Standing Orders.

Councillor Cassidy echoed Mr de Vink comments regarding the Chairs efforts and commitment to this committee in the last four years has been exemplary. He then highlighted the last paragraph on P26 with regards to compliance with CIPFA guidance noting that there are two Cabinet members on this committee.

The Chair advised that this had been raised during the self-assessment and the guidance suggested that Audit Committee membership should not include the Executive. He further advised that this has been commented in previous years though noted that it is very hard to avoid in a small Council.

Jill Stacey in response to Councillor Cassidy's comments referred to Appendix 2 (P30) and highlighted that the good practice guidance stated that the make-up of the committee should have separation from the Executive. She further advised that membership of Midlothian Council's Audit Committee was compliant with the Council's scheme of administration and that with the two independent members this balances the Committee and ensures the independent scrutiny function.

Cllr Parry also thanked the Chair for his time on the Committee and also for this report. She then asked what preparations are being made to recruit new Councillors with a focus of recruiting Councillors for underrepresented groups.

The Chief Executive advised that financial matters are determined at Council level rather than Cabinet and that is an important distinction to take into account. The Chief Executive in response to Councillors Parry's comments advised that she was happy to have conversations with the groups and group leaders to outline the preparations which are ongoing for the local government elections in May 2021 and provide regular updates to them.

Councillor Milligan reiterated that the Council financial reports are all considered at Council and that budgets have been set by Council on the recommendations of the Business Transformation Steering Group. Councillor Milligan added that part of the

remit of the Audit Committee was to give assurance across the Council activities including that the Internal audit function was effective. He observed that if Jill Stacey is preparing the Chairs report, that this didn't seem right. He also commented that with 18 Elected Members if you remove the members of the Cabinet from the membership there may not be enough Members to fill the function of an Audit Committee.

The Chair then provided clarity on his report stating that Internal Audit had provided the details regarding the minutes and the work of the Audit Committee but the comments and recommendations are his as chair and reflect what he has picked up from the discussions and concerns from the Audit Committee during the year. He further stated that the work from internal audit supported the report to the Council.

The Chair then responded to a further question from Councillor Cassidy with regards to the separation of the Audit Committee and the Executive and referenced the challenges of securing this in a small Council.

Jill Stacey confirmed that the intention was to present the Chair's report to the Council meeting scheduled on 5 October 2021. Jill Stacey further advised that there was one slight change to the report which was a link to an action in Annual Government Statement presented to this committee in June 2021 that made references around the progress in terms of Elected Members and their profession development plans. . One suggestion would it be if appropriate to rename informal session as development session which would better reflect the purpose of these sessions and enhance the committee going forward. It was noted that this would be taken offline and discussed further at the next session.

There followed further discussion and it was agreed there would be no changes during this term of Council and that this recommendation was a matter for the Standing Orders Working Group and ultimately the New Council elected in May 2022.

#### Decision

The Audit Committee approved the Audit Committee Annual Report 2020/21 (Appendix 1) and its self-assessments using the CIPFA Audit Committees Guidance (Appendices 2 and 3), and agreed that the Audit Committee Annual Report 2020/21 should be presented to the Council.

#### Action

Democratic Services

Report No.	Report Title	Presented by:
5.2	Midlothian Council Unaudited Financial Statements 2010/21	Chief Officer Corporate Solutions
<b>Outline of report and summary of discussion</b>		
The purpose of this report was to present the Council's unaudited annual accounts for 2020/21 to Audit Committee and to provide a brief overview on some of the key		



areas. A separate presentation was provided by the Chief Officer Corporate Solutions to Committee to support consideration of this report and the accounts themselves.

In presenting the Accounts, Mr Fairley outlined some of the key highlights detailed within the report, the regulations and timescales for the preparation and the scrutiny of the Accounts. The presentation covered a number of the key points from the accounts. He further advised that the draft audited accounts were scheduled to be presented to the Audit Committee in September and that the Audit was progressing well.

On a question from the Chair regarding the September meeting Mr Fairley confirmed that although the deadline for completion of the audit was 31 October 2021 he still expected to complete for the September meeting. The External Auditor also confirmed that they were on target for the end of September.

Mr Fairley expressed his thanks to the Finance Team and Officers across the Council which had supported the completion of the unaudited accounts.

The Chair commented on the continued improvement in the management commentary which makes the information a lot more accessible to the general public and thanked Mr Fairley and his team.

Councillor Parry raised a point of accuracy on the Annual Governance Statement on page 66, B - Ensuring openness and comprehensive stakeholder's engagement, which sets out that emergency decisions were taken by the Council up to 15 June 2020. However it was her recollection that decisions have been made by Group Leaders since then. She further advised that the reason for the point of accuracy was it sets out that Standing Order 19.2 was implemented from 24 March to 15 June 2020 for emergency decisions but recently a decision by the General Purposes committee to license an event was overturned in a meeting with just three Councillors. Councillor Parry raised her concerns regarding the governance around this and the reputational damage to the Council.

Councillor Parry also raised on page 69, Improvement areas of governance, which references working between Elected Members and the Business Transformation Steering Group and how those groups work well together. While acknowledging the groups do work well there has not been a lot of consensus decision making coming out of the Business Transformation Steering Group, in her own experience of this group. Councillor Parry enquired who was asked before this report was put together.

Mr Turpie confirmed that there was a delegated power to the Executive Director Place, Mr Anderson to suspend any civic government licenses in terms of paragraphs 11 and 12 of the Civic Government Scotland Act and in this case Mr Anderson met with the Group Leaders to get their views on the matter to assist in making his decision on this matter but this was done on Mr Anderson's delegated powers.

The Chief Executive advised that just prior to the pandemic the Group Leaders met on the 16 March 2020 to discuss emergency decision making powers through the

immediate months of the pandemic and the decision to use 19.2 all of those have to be under governance arrangement have to be reported back to Council and at the Council meeting in June 2020 all these 19.2 decisions were reported. Also during that time the Chief Executive met with the Administration and Group Leaders weekly so they were kept informed and up to date on 19.2 decisions. The Chief Executive also confirmed that all 19.2 decisions made had been reported to Council as this is a requirement under Standing Orders.

The Chair advised his understanding of the answers given by the Chief Executive was that the comments in the Accounts regarding 19.2 framework is correct and any other decisions that have not gone through normal governance have been done through delegated powers under that governance framework.

Mr Fairley reiterated that the Annual Governance Statement which is an important element in the Accounts was brought to the Audit Committee in June in draft and the Committee endorsed the content of the statement reflected in the Accounts. He also advised that the Statement will also be subject to scrutiny by EY, External Auditors and may change during the audit process.

Councillor Milligan responded to the point regarding the licencing issue advising that he was quite clear in the discussion with Group Leaders that the advice from the Scottish Government was that the event did not meet the criteria to go ahead and therefore the Director took the decision under delegated powers to revoke the licence. With regards to the comment from Councillor Parry regarding the Business Transformation not working well, in his opinion it worked very well and there had been a lot of debate and discussions at these meetings and where there was a disagreement it was brought to Council for a decision. He further commented on the earmarked reserves and stated if they are earmarked they are no longer available to spend and this could be very confusing for the public when they read about reserves that Councils have when these are already committed.

Councillor Smaill thanked Mr Fairley for all the work to bring forward the accounts and advised that he considered that there were two big issues still outstanding. Firstly Lothian Buses where he noted that East Lothian Council were taking into account the pension deficit when valuing the carrying value of their shareholding and that he considered that it was undesirable for Midlothian to adopt a different valuation basis particularly as we have guaranteed the pension fund. He then raised a question with regards to housing stock numbers and contract completion on housing. In response Mr Anderson advised that for the year to 31 March 2020 there were 29 new builds and 44 buy backs. Mr Fairley then responded with regards to the carrying value of Lothian Buses shareholding on the balance sheet and that this would be covered by EY's audit.

The Chair advised that there had been an exchange of emails regarding points of detail on the content of the accounts and that these had been responded to and would be adjustments for the audited financial statements. The Chair thanked Mr Fairley for his work on the Accounts and the presentation provided.

#### Decision

The Committee noted the unaudited accounts for 2020/21.

## **6. Private Reports**

---

No private reports were submitted.

## **7. Date of Next Meeting**

---

The next meeting will be held on Tuesday 28 September 2020 at 11 am

The meeting terminated at 13.05 pm



# Action Log

Audit Committee  
Tuesday 28 September 2021  
Item No: 4.2



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	<b>Internal Audit Annual Assurance Report 2019/20 – Risk Management Policy and Strategy</b>	22/06/2020	Agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy	Chief Officer Place	December 2021	Linked to update of Local Code. Internal Audit review of Risk Management underway in Q1 2021/22
2	<b>Financial Reports – Council Meeting - 25 August 2020</b>	18/08/2020	Send reports to the Independent Member of the Audit Committee	Democratic Services	Ongoing	Future Reports with a financial element relevant to Audit to be made available to the Independent Members of the Audit Committee.
3	<b>Internal Audit Recommendations</b>	09/03/2021	Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.	Chief Internal Auditor	September 2021	Two follow-up reports per year to Audit Committee as per approved Internal Audit Annual Plan.
4	<b>Report on reconciliation of Social Housing work in progress and completions</b>	04/05/2021	Report to be circulated to Members of the Audit Committee when completed.	Kevin Anderson	September 2021	

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
5	Property Maintenance	04/05/2021	BTSG report to be circulated to members of the Audit Committee when completed.	Kevin Anderson	September 2021	

# Midlothian Council

**Annual Audit Report to Members  
and the Controller of Audit - year  
ended 31 March 2021**

**28 September 2021**



# Contents

Section	Auditor Responsibility	Page
<b>Executive Summary</b>	Summarise the key conclusions from our audit	<b>03</b>
<b>Financial statements audit</b>	Provide an opinion on audited bodies' financial statements  Review and report on, as appropriate, other information such as the annual governance statement, management commentary and remuneration report	<b>05</b>
<b>Wider scope dimensions</b>	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's: <ul style="list-style-type: none"> <li>▶ financial position and arrangements for securing financial sustainability</li> <li>▶ suitability and effectiveness of corporate governance arrangements</li> <li>▶ effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets</li> </ul> Provide an update on the our work in respect of assessing the Council's arrangements to secure Best Value across our audit appointment period	<b>21</b>
<b>Appendices</b>	Undertake statutory duties, and comply with professional engagement and ethical standards:  Appendix A: audited body's responsibilities  Appendix B: required auditor communications  Appendix C: independence and audit quality  Appendix D: action plan  Appendix E: summary of adjusted differences identified during the audit  Appendix F: Timing and deliverables of the audit	<b>36</b>

## About this report

This report has been prepared in accordance with Terms of Appointment Letter from Audit Scotland dated 31 May 2016 through which the Accounts Commission has appointed us as external auditor of Midlothian Council (the Council) for financial years 2016/17 to 2021/22. As a result of the impact of Covid-19 our appointment was extended by a further 12 months to include the financial year 2021/22. We undertake our audit in accordance with the Local Government (Scotland) Act 1973 and our responsibilities as set out within Audit Scotland's Code of Audit Practice. This report is for the benefit of the Council and is made available to the Accounts Commission, the Controller of Audit and Audit Scotland. This report has not been designed to be of benefit to anyone except the recipients. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the recipients, even though we may have been aware that others might read this report.

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

## Complaints

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



# Executive Summary: Key Conclusions from our 2020/21 audit

---

*[We have issued an unqualified audit opinion on the Council and Group 2020/21 financial statements.]*

---

We continued to review and update our risk assessment throughout the audit, including the materiality level applied. No changes were required as a result of this review.

## Financial Statements

*[We have concluded our audit of the Council's financial statements for the year ended 31 March 2021.]* Two adjustments were made to the financial statements since the publication of the unaudited accounts in June 2021. We identified a further two unadjusted differences that we are required to communicate. The draft financial statements and supporting working papers were provided on time and were of a high quality. This has been an area of continued improvement over the term of our appointment. We worked with management to make a number of enhancements to the Management Commentary, Annual Governance Statement and notes to the financial statements, in particular to ensure the financial statements reflected recent good practice guidance from Audit Scotland around the disclosures of key estimates and judgements.

We concluded that the other information subject to audit, including the applicable parts of the Remuneration Report and the Annual Governance Statement were appropriate. We were generally satisfied that the Annual Governance Statement reflects the requirements of the *Delivering Good Governance Framework*, and the key changes in governance arrangements that were required as a result of changes to working practices due to Covid-19.

## Going Concern

In accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity.

Under a revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. The Council has concluded that there are no material uncertainties around its going concern status, however it has enhanced the disclosures around its future financial position in the financial statements to reflect the impact of Covid-19. We have no matters to report in respect of our work around going concern or the conclusions reached by the Council.

## Wider Scope and Best Value

We summarise the conclusions we reached in response to our work on the wider scope dimensions below.

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value.

Audit Scotland conducted a follow up against the recommendations made within the July 2019 Best Value Assurance Report and found that good progress has been made, despite the impact of the pandemic.

We note that the Council has a number of key characteristics of Best Value in place, including effective strategic planning arrangements.

### Financial Sustainability

The Medium Term Financial Strategy (MTFS) meant that the Council had a clear financial plan in advance of the impact of Covid-19. We anticipate that updates to the MTFS for the 2022/23 budget to be presented to the Council will continue to rely on one-off measures. A revised MTFS is being developed to support the new administration in May 2022.

Our assessment of amber reflects the ongoing challenge facing local authorities and the level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, all of which has been exacerbated by the ongoing impact of Covid-19. However, there remains a need for continued member and officer focus on maintaining financial sustainability and fulfilling the statutory responsibility of members to determine balanced budgets over the medium term.

AMBER

### Financial Management

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding the financial impact of Covid-19. The Council's financial regulations are under review alongside a number of key governance documents including Standing Orders

The importance of good financial control is clearly understood across the Council. Our interactions with finance through the year identified a robust financial management environment and no material financial control deficiencies.

We have not identified weakening financial management arrangements following the changes to the established working environment following Covid-19.

GREEN

### Governance and Transparency

The key features of good governance remain in place at the Council. The Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the global pandemic.

The Council's Audit Committee assessed itself as having a medium degree of performance and effectiveness during the year. The Council should satisfy itself that governance arrangements meet changing scrutiny needs following the forthcoming local government elections.

GREEN

### Value for Money

Recent improvements have been piloted to the presentation of performance reports to support members in performing their scrutiny role effectively.

We note that performance continues to fall short of the targets set within the Council's own performance management framework although improvement has been noted in a challenging year. The Council should continue to review the targets to ensure that they are achievable and represent changing priorities.

AMBER

# Introduction

As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the Council to 2021/22.

## Purpose of this report

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Council ("the Council"). Our appointment term has been extended by a further 12 months, to financial year 2021/22. We undertake our audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

This Annual Audit Report is intended to summarise the key findings and conclusions from our audit work. It is addressed to both members of the Council and the Controller of Audit, and presented to those charged with governance. This report is provided to Audit Scotland and will be published on their website.

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

A key objective of our audit reporting is to add value by supporting the improvement of the use of public money. We aim to achieve this through sharing our insights from our audit work, our observations around where the Council employs best practice and where practices can be improved. We use these insights to form our audit recommendations to support the Council in improving its practices around financial management and control, as well as around key aspects of the wider scope dimensions of audit. Such areas we have identified are highlighted throughout this report together with our judgements and conclusions regarding arrangements, and where relevant recommendations and actions agreed with management. We also report on the progress made by management in implementing previously agreed recommendations.

## Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as external auditor. Further information is available in Appendix B.

The ongoing disruption to the Council as a result of the impact of Covid-19 continues to have a significant impact on the financial statements and subsequent audit.

The financial statements reflect the impact of Covid-19 on the Council's financial position and performance.

## Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Council's Audit Committee in March 2021.

## The impact of the Covid-19 Pandemic

In 2019/20 we were required to supplement our Annual Audit Plan, with an addendum outlining the main anticipated areas of impact on the audit following our reassessment of all audit planning and risk assessments. As Covid-19 was a known factor in planning the audit in 2020/21, the same approach has not been required. We have, however, added to our planning and execution procedures throughout the audit to take into account various factors related to Covid-19, and have continued to reassess the risks facing the Council in this light:

- ▶ 2020/21 was the first year where there were material transactional impacts in the Council's financial statements, in particular through the recognition of additional Covid-19 related costs and subsequent government funding support.
- ▶ While some of the uncertainty around the impact of Covid-19 on key balance sheet valuations had reduced from 31 March 2020 to the current yearend, this also remained a key area of audit focus.
- ▶ We continued to work with management to ensure the financial statements adequately reflect the impact of Covid-19, in particular through the management commentary, governance statement, and accounting estimates and judgements disclosures.

In line with the audit in 2019/20, following the outbreak of the pandemic, the audit was conducted fully remotely. Information was shared between the Council and the audit team through our secure portal, and inquiries and investigation took place through Microsoft teams meetings. In order to mitigate the risk of not being able to view key documents and information on systems in person, additional supplementary procedures were completed to verify the information provided by management.

Both the audit team and Council finance team worked in conjunction to ensure the additional impact of these working arrangements were minimised as far as possible. We would take this opportunity to thank the full team for their co-operation and support throughout this period.

We updated our assessment of materiality based on the 2020/21 financial performance. Planning materiality was increased from £6.8 million to £7.7 million.

## Our review and reassessment of materiality

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of £6.8 million. We considered whether any change to our materiality was required in light of Covid-19 and the Council's 2020/21 financial performance. As a result of increased expenditure in year, our materiality was revised to £7.7 million.

Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations. Factors which we consider include the perspectives and expectations of users of the financial statements as well as our risk assessment as to the likelihood of material misstatements arising in the financial statements.

Overall Materiality	Tolerable Error	Level that we will report to committee
<b>£7.7 million</b>	<b>£5.8 million</b>	<b>£250,000</b>
2% of the Council's net expenditure	Materiality at an individual account level	Nominal amount

As outlined in our Annual Audit Plan, based on considerations around the expectations of financial statement users and qualitative factors, we apply lower materiality levels to the audit of the Remuneration Report and Related Party Transactions.

## Financial statement audit

We are responsible for conducting an audit of the Council's financial statements. We provide an opinion as to:

- ▶ whether they give a true and fair view of the financial position of the Group and Council as at 31 March 2021 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2020/21 Code of Practice on Local Authority Accounting in the United Kingdom.

We also review and report on the consistency of the other information prepared and published along with the financial statements. Our findings are summarised in Section 2 of this report.

### **Wider Scope audit**

Our responsibilities extend beyond the audit of the financial statements. The Code requires auditors to provide judgements and conclusions on the four dimensions of wider scope public audit:

- ▶ Financial management;
- ▶ Financial sustainability;
- ▶ Governance and transparency; and
- ▶ Value for money.

Our findings are summarised in Section 3 of this report.

### **Best Value**

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. We outline our findings and assessment for 2020/21 on page 41.



# Financial Statements audit

## Introduction

The annual financial statements provide the Council with an opportunity to demonstrate accountability for the resources that it has the power to direct, and report on its overall performance in the application of those resources during the year.

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan.

The plan highlighted two areas that we identified as a significant risk of material misstatement or fraud risk:

- ▶ the risk of fraud in revenue and expenditure recognition (significant risk); and
- ▶ misstatements due to fraud or error (fraud risk).

## Compliance with Regulation

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by the Council or a committee with an audit or governance remit. Despite the pandemic, the Council complied with the regulations and the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 30 June 2021.

The inspection notice was published by the Council on 17 June 2021, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

## Preparation of the Financial Statements

The unaudited financial statements prepared by management were to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, we worked with management and the finance team to make amendments and enhancements to the presentation. Our focus included consideration of the appropriateness of the disclosures related to the ongoing impact of Covid-19, including in the management commentary, governance statement and financial statements notes.

The Regulations were amended to allow the Council to delay preparation of the financial statements. However, the draft financial statements were submitted for audit in line with planned timescales. The inspection notice was published in accordance with requirements.

The financial statements continue to be prepared with a robust internal process, including quality assurance checks prior to being submitted for audit.

This year we worked with management to consider guidance from Audit Scotland issued to local government bodies, following a review of the significant accounting judgements and sources of estimation uncertainty disclosed within the 2019/20 financial statements of 30 Scottish councils. The disclosures of accounting judgements and estimation uncertainty were chosen for a good practice review because of their fundamental importance in understanding the financial statements, along with indications that the quality of the disclosures were variable. Following our review and discussions with management, a number of enhancements were made to further align them with identified areas of good practice.

### **Group financial statements**

The Council has identified and accounted for the following interests in other entities within its group financial statements:

- ▶ Pacific Shelf 826 Ltd;
- ▶ Trusts, Bequests, Common Good and Community Funds;
- ▶ Lothian Valuation Joint Board;
- ▶ Midlothian Energy Limited; and
- ▶ Midlothian Integration Joint Board.

Midlothian Energy Limited is a new joint venture with Vattenfall, a Swedish state-owned energy company. The venture will support the delivery of low carbon energy projects across the Midlothian area.

No matters were identified as a result of our review of the group consolidation arrangements within the financial statements. Midlothian Integration Joint Board is the only entity in scope for our group audit arrangements. All required audit work was provided by the IJB audit team to the Council audit team in line with timeframes agreed and with no exceptions or reportable matters noted.

### **[Audit Status**

*Our audit work is substantially complete with the following areas of work ongoing:*

- ▶ *Receipt of finalised IAS 19 assurances from the pension fund auditor;*
- ▶ *Finalisation of the Manager and Partner review; and*
- ▶ *Subsequent events procedures.]*

### **Audit Outcomes**

We identified four audit difference arising from the audit, which have been summarised in the relevant sections of this report. Two have been adjusted by management in the finalised financial statements and two remain unadjusted on the grounds of materiality. Our overall audit opinion is summarised on the following page.



# Our audit opinion

## Element of opinion

## Basis of our opinion

## Conclusions

### Financial statements

- ▶ Truth and fairness of the state of affairs of the Group and Council at 31 March 2021 and its expenditure and income for the year then ended
- ▶ Financial statements in accordance with the relevant financial reporting framework

We report on the outcomes of our audit procedures to respond to the most significant assessed risks of material misstatement that we have identified, including our judgements within this section of our report. We did not identify any areas of material misstatement.

We are satisfied that accounting policies are appropriate and estimates are reasonable

We have considered the financial statements against Code requirements, and additional guidance issued by CIPFA and Audit Scotland.

*[We issued an unqualified audit opinion on the 2020/21 financial statements for the Council and its Group.]*

### Going concern

- ▶ We are required to conclude and report on the appropriateness of the use of the going concern basis of accounting

We conduct core financial statements audit work, including review and challenge of management's assessment of the appropriateness of the going concern basis.

Wider scope procedures including the forecasts are considered as part of our work on financial sustainability.

In accordance with the work reported on page 21, our audit opinion is unqualified in this respect.

### Other information

- ▶ We are required to consider whether the other information in the financial statements is materially inconsistent with other knowledge obtained during the audit

We conduct a range of substantive procedures on the financial statements.

We conduct a range of substantive procedures on the financial statements and our conclusion draws upon Review of committee and board minutes and papers, regular discussions with management, our understanding of the IJB and the wider sector.

We are satisfied that the Annual Report meets the core requirements set out in the Code of Practice on Local Authority Accounting.

### Matters prescribed by the Accounts Commission

- ▶ Audited part of Remuneration Report has been properly prepared.
- ▶ Management Commentary / Annual Governance Statement are consistent with the financial statements and have been properly prepared.

Our procedures include:

- ▶ Reviewing the content of narrative disclosures to information known to us.
- ▶ Our assessment of the Annual Governance Statement against the *Delivering Good Governance* Code.

*[We issued an unqualified opinion.]*

### Matters on which we are required to report by exception

We are required to report on whether:

- ▶ there has been a failure to achieve a prescribed financial objective,
- ▶ adequate accounting records have been kept,
- ▶ financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records, or
- ▶ we have not received the information we require.

We have no matters to report.

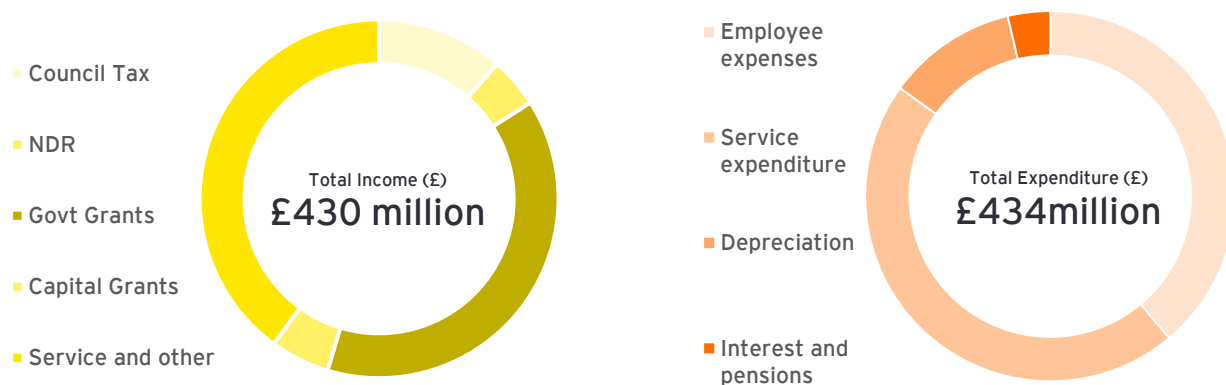
# Significant and fraud audit risks

## What is the Risk of Fraud in income and expenditure recognition

As outlined in our Annual Audit Plan, ISA (UK) 240 requires us to assume that fraud risk from income recognition is a significant risk. In the public sector, we extend our consideration to the risk of material misstatement by manipulation of expenditure.

In our audit planning, we rebutted the risk of improper recognition of core grant funding income from the Scottish Government, as well as in respect of council tax and non-domestic rate income because there is no judgement in respect of these income streams. We also rebut the risk around payroll expenditure recognition. We have outlined below how our assessment impacts our testing strategy on the Council's financial statements.

### Exhibit 1: Key components of the Council's income and expenditure



Source: 2020/21 Financial Statements: Note 12 Expenditure and Income analysed by nature

For both income and expenditure we focus on the risk in relation to the occurrence, completeness and measurement of income and expenditure recognised around the financial yearend through the process of yearend accruals. For income we also focus on the recognition of grant income where there are conditions attached to the recognition, and on the treatment of capital grant income to ensure it is not accounted for as revenue.

Our work included:

- ▶ Review and challenge management's accounting estimates on revenue or expenditure recognition for evidence of bias.
- ▶ Focusing our testing on income and expenditure recognised around the financial yearend through manual journals and accruals raised by management.
- ▶ Search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.

## Our Audit of Other Income and Expenditure

We undertook walkthroughs in respect of the processes management established to account for material income and expenditure streams. We obtained data downloads from the Council's financial ledger to allow us to trace key transactions from initiation to recording in the financial statements.

### Other audit procedures: non-significant risk areas:

**Council tax income:** We established detailed expectations of income based on properties and rates and compared to actual income in the year. We audited the reconciliation between the financial statements and the relevant feeder system.

**Non Domestic Rates:** We established expectations of income to be collected by the billing authority and agreed the reconciliation between the general ledger and the feeder system. We also audit the Council's NDR grant return to the Scottish Government to ensure that reliefs have been applied appropriately.

**Non ring-fenced grant income:** We substantively tested these balances to grant confirmation letters from third parties.

**Interest income:** We agreed balances to bank statements and other third party reports.

**Employee expenses:** We establish expectations of payroll costs in the year based on staff numbers and salary movements, and compared our expectations to actual results and investigated variances. Our bespoke data analysers provided analysis of all payroll transactions in the year, from which we investigated and corroborated material and unusual transactions.

**Depreciation, amortisation & impairment:** We undertook testing of these balances in conjunction with our work on property, plant and equipment. We considered the appropriateness of useful lives of assets and recalculated depreciation charged in the year.

**Pension costs:** We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on page 19. In respect of all pension transactions impacting the CIES we agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.

### **Audit of Covid-19 grant income and expenditure**

Due to the proximity to the 2019/20 year end of the Covid-19 pandemic and subsequent lockdown in March 2020, the related audit risk on the 2019/20 financial statements was in respect of balance sheet valuations. In 2019/20 there were minimal income and expenditure transactions impacted by the pandemic. 2020/21 was the first year where income and expenditure transactions were materially impacted by Covid-19.

The Council received £23.8 million in the year from the Scottish Government related to Covid-19 to support the Council in meeting its additional costs, local businesses and the wider public. The material nature of the additional funds created a new income stream for audit consideration. Our audit work focused on:

- ▶ Reviewing the arrangements the Council had implemented to manage the processing, monitoring and reporting of the new income, including addressing the risk of misappropriation and fraudulent claims. Our work and conclusions here are outlined in more detail in the financial management section of our wider scope reporting.
- ▶ Assessing management's accounting treatment of the income and expenditure against the requirements of IFRS, the CIPFA Code and the specific LASAAC guidance issued in the year. We particularly focused on whether income and related expenditure had been correctly categorised as the Council being a "principal" or "agent" in the transaction.
- ▶ Selecting a risk based sample of grants to agree to supporting evidence, in the form of bank receipts, grant awards and other notifications, including the details of the grant award conditions, where relevant.
- ▶ Review of the disclosures made by the Council in the financial statements to ensure they met both accounting requirements and more generally were sufficient to allow readers to understand the nature of the activity in the year given the significance to the Council.

#### **Our conclusions**

- ▶ Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- ▶ We identified no matters to report in relation to the Council's accounting for Covid-19 grant income and related expenditure in the year.

### **Risk of Misstatement due to Fraud or Error**

Our Annual Audit Plan recognised that under ISA (UK) 240, management is considered to be in a unique position to perpetrate fraud in financial reporting because of its ability to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively. We respond to this risk on every engagement.

### **Risk of Fraud**

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

### **Testing on Journal Entries**

We tested the appropriateness of manual journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify potentially unusual journals based on posting patterns, amounts or areas of greater risk of judgement or incentive for management to adjust according to our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions. In particular we considered:

- ▶ Journal entries made directly into the general ledger of a material nature to key accounts which are considered more likely to have an incentive to be manipulated;
- ▶ Journals transferring funds between useable reserves and restricted or separated accounts such as HRA accounts; and
- ▶ Journals adjusting between income and expenditure accounts and capital accounts.

We identified no unusual journals which could not be explained by management or which indicated any additional risk of fraud.

### **Our conclusions**

- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- ▶ There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

## **Judgements and Estimates**

ISA (UK) 540 on accounting estimates was issued in December 2019 and is applicable to the 2020/21 audit for the first time. In particular, risk factors relevant to the public sector included the following examples for consideration by auditors:

- ▶ a very high degree of estimation uncertainty caused by the need to project forecasts far into the future, such as liabilities relating to defined benefit pension schemes (outlined on page 19 of this report); and
- ▶ areas where there may be a lack of available comparators for estimates that are unique to the public sector, such as the valuation of important public assets (such as property, plant and equipment, outlined on page 18 of this report).

Our procedures included:

- ▶ Testing management's process method, key assumptions, data;
- ▶ Testing management's process-estimation uncertainty;
- ▶ Considering evidence from events up to the report date; and
- ▶ Developing our own point estimate of the appropriate valuation.

We reviewed each significant accounting estimate for evidence of management bias as outlined above, including retrospective consideration of management's prior year estimates.

Management disclosed its assessment of the critical accounting judgements and key estimates in the financial statements. We worked with management to enhance these, as outlined earlier in this report.

## **Accounting Policies**

We considered the consistency and application of accounting policies, and the overall presentation of financial information. We consider the accounting policies adopted by the Council to be appropriate. There were no significant accounting practices which materially depart from what is acceptable under the Code.

### **Our conclusions**

- ▶ We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- ▶ There were no significant accounting practices which materially depart from what is acceptable under the Code.

# Other inherent audit risks

## **Valuation of Property, Plant and Equipment**

The Council's property, plant and equipment (PPE) portfolio totals over £0.96 billion of assets (2020: £0.89 billion). The valuation of these assets requires expertise and significant estimation. In 2020 we reported that the Royal Institute of Chartered Surveyors (RICS) issued guidance highlighting that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty in the valuation of assets at 31 March 2020.

To meet the requirements of the CIPFA Code of Practice, the Council values its property, plant and equipment on a 5 year cycle. Due to the timing of the Council's valuation cycle a significant amount of the Council's estate was subject to revaluation in 2020/21 (£0.78 billion). This included the Council's social housing assets where the discount factor was reviewed (£397 million) and its schools (£383 million).

As RICS withdrew its guidance which caused valuers to conclude that there was a material uncertainty in the valuation of assets for 31 March 2020, we assigned an inherent audit risk to the valuation of the Council's PPE.

To address the higher inherent risk, our work focused on the following key areas:

- ▶ Considering the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ Sample testing key asset information used by the valuers in performing their valuation based on both size of asset value and our consideration of risk assigned to each valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ Auditing management's assessment of assets not subject to valuation in the year to confirm that there were no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.
- ▶ Completion of procedures designed to address the requirements of the revised ISA 540, as outlined earlier.
- ▶ We identified no audit differences through the course of our work around the valuation of the Council's social housing assets, and identified no assets which had not been revalued which demonstrated indicators they should be revalued in the year.
- ▶ We identified one audit difference in relation to the valuation of schools in 2020/21, outlined in Appendix E. The difference has not been adjusted on the grounds of materiality.

### Valuation of Property, Plant and Equipment (continued)

The Council's overarching process for valuation of its property, plant and equipment, continued to show improvements in 2020/21. The finance team has invested significant resources in monitoring its estate and considering the accounting implications of any significant changes and ensuring there is proactive discussions with its auditor around the most appropriate way to account for matters identified.

The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty, and the material size of the assets continues to increase the risk of major movements in asset values following formal revaluation. While the Code requires that assets must be revalued at least every five years it is becoming more common that this period of time between valuations results in significant movements. Equally, there is a challenge for management to balance the requirement to ensure asset valuations are not materially misstated at each balance sheet date, in accordance with International Financial Reporting Standards, while also ensuring the significant work associated with valuations can be completed in time to allow thorough internal review and confirmation.

**Recommendation 1:** Given the ongoing focus on the valuation of fixed assets, and the materiality and estimation uncertainty associated with valuations, management should review its valuation cycle arrangements going forward.

Given the increased scrutiny of asset valuations, combined with the completion in 2020/21 of the revaluation of the major aspects of the Council's assets, we consider that this would be an opportunity for the Council to consider its future approach to this important area. This may include:

- ▶ Reducing the time between full valuations for all major individual asset classes; and
- ▶ Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations.

### Our conclusions

- ▶ We identified one audit adjustments related to the Council's valuation of assets in 2020/21.
- ▶ We concluded that management has undertaken sufficient procedures to identify any further assets which should be revalued before their cycle valuation date.
- ▶ In light of the ongoing focus on the valuation of assets we have recommended the Council take this opportunity to consider its overall asset valuation arrangements.



## Valuation of pension liabilities

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Lothian Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2021 the net liability totalled £141 million (2020: £97.7 million). The pension figures included in the financial statements are those that are prepared annually for accounting purposes as required by IAS 19. The funding of the scheme and the determination of employer contributions is determined with reference to the triennial valuations carried out by the scheme actuary. The last triennial actuarial valuation, in 2020, assessed the overall funding position to be 104% (2017: 99%)

Accounting for this scheme involves significant estimation and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. We have outlined on the previous page our requirement to consider this estimate in line with the requirements of ISA 540. In particular, for the valuation of pension assets and liabilities we are required to undertake procedures on the use of management experts, the assumptions underlying fair value estimates, and the valuation of the Council's share of scheme assets and liabilities at the year end.

Our audit work focused on the following areas of judgement within these balances included:

- ▶ Auditing the reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent developments in relation to the various ongoing equalisation case judgements such as the GMP, McCloud and Goodwin rulings.
- ▶ Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that our own estimate of the valuation based on those inputs was materially consistent with the actuarial reports.
- ▶ Considering the findings of the appointed auditor of the Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2021.
- ▶ Auditing the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.

### Our conclusions

- ▶ The assumptions used by the actuary were reviewed by our EY actuarial team who concluded that the assumptions and methodology used are considered to be within a range which is appropriate.
- ▶ The auditor of the Lothian Pension Fund reported no material differences in the valuation of assets held by the Fund. The material uncertainty reported in relation to the valuation of complex investments at 31 March 2020 has been removed for the same assets at 31 March 2021.

### **Financial flexibilities**

In October 2020 the Cabinet Secretary wrote to COSLA to confirm three financial flexibilities for local government with further details to be brought forward in statutory guidance:

- ▶ Use of capital receipts to fund revenue Covid-19 expenditure in 2020/21 and 2021/22.
- ▶ Loans fund repayment holiday in either 2020/21 or 2021/22.
- ▶ Extension of PPP and other similar contracts debt repayment periods to reflect asset life.

The capital receipts and loans repayment holiday are only to be used for the purposes of addressing Covid-19 related costs, whereas the change to PPP accounting may provide a wider flexibility. Local authority Directors of Finance and COSLA have been liaising with the Scottish Government to clarify the practicalities of the flexibilities. The revised legislation for capital receipts and loans repayments was considered by the Local Government and Communities Committee in February 2021 where there was committee support.

Council delegated authority to the Chief Officer Corporate Solutions, in consultation with the Group Leaders approval, to apply flexibilities as required, based on the outcome of the ongoing discussion with the Scottish Government, on the actual outturn position at the year end and an assessment of continued Covid-19 financial pressures for 2021/22. The latest position on flexibilities was reported to Council in June 2021 which noted that:

- ▶ Until the Cabinet Secretary confirms the technical methodology which should be used to reprofile PPP debt repayment periods and the associated implications, this flexibility will not be used.
- ▶ Given the current affordability pressures in the approved capital programme, use of capital receipts was not recommended.
- ▶ The Council is able to use the loans fund repayment holiday in 2021/22 however at present, based on forecast outturn, it is not necessary to deploy this flexibility but this will be monitored throughout the year.

At 31 March 2021 the Council had not applied any of the financial flexibilities initially presented by the Scottish Government. We will keep this under review in 2021/22 and consider the accounting treatment and impact on future financial planning accordingly.

# Going concern

Under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. In accordance with the CIPFA Code of Practice on Local Government Accounting, the Council prepares its financial statements on a going concern basis unless informed by the Scottish Government of the intention for dissolution without transfer of services or function to another entity. CIPFA bulletin 09 (issued at closure of the 2020/21 financial statements) states that while there is likely to be a significant impact of Covid-19 on local authority financial sustainability, the rationale for the going concern basis of reporting had not changed.

However, under the revised auditing standard, ISA 570, we are required to undertake greater challenge of management's assessment of going concern, including testing of the adequacy of the supporting evidence we obtained. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and its financial sustainability. Management's going concern assessment and associated disclosures cover the 12 month period from the date of approval of the financial statements to October 2022, including the expected impact on the Medium Term Financial Plan.

Management's going concern assessment reported that the Council shall prepare its financial statements 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. It reported significant access to cash to support the cost of delivering services, with balances more than sufficient to cover a plausible downturn in Council income from variable sources, and access to other useable reserves in committed funds which could be reallocated as necessary. On this basis the Council concluded that there are no material uncertainties around its going concern status.

## Our conclusions

- ▶ We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key Council reports and treasury management forecasts of future cash balances. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council, or of the wider Group where they are material to the consolidated financial statements.
- ▶ We worked with management to enhance the disclosures in the financial statements in relation to the impact of Covid-19 on the Council's future financial performance.

# Looking ahead

## IFRS 16 - Leases and Other changes

The implementation of IFRS 16 has been delayed until 1 April 2022 following the impact of Covid-19 on local government and to ensure other areas of financial management are prioritised.

The Council finance team has demonstrated progress in undertaking work to understand and disclose the impact of the change on the Council's financial statements.

We have reported in previous years that IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as "pay as you go" arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 has been delayed on a number of occasions in local government financial statements for various reasons. Most recently it was due to be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. As part of the consideration of the impact of Covid-19 on local government, CIPFA confirmed the implementation of the standard was to be delayed to 1 April 2022.

This further deferral is limited to one year only and CIPFA LASAAC note that it will not grant any further extensions based on lack of preparedness. All finance teams are therefore urged to continue their preparations for implementation and to ensure that they are ready to adopt the standard in the 2022/23 financial year.

We have outlined previously that full compliance with the revised standard is likely to require a detailed review of existing leases and other contract documentation prior to the implementation date in order to identify:

- ▶ all leases which need to be accounted for;
- ▶ the costs and lease term which apply to the lease;
- ▶ the value of the asset and liability to be recognised as at 1 April; and
- ▶ where a lease has previously been accounted for as an operating lease.

Work is therefore necessary to prepare information required to enable the Council to fully assess their leasing position and ensure compliance with the standard from 1 April 2022.

We have discussed progress in preparing for the implementation of *IFRS 16 Leases* standard with the finance team over the course of the past few audits and are satisfied robust arrangements were being established to assess the impact of the changes for inclusion in the financial statements. We will continue to assess the Council's progress, including the results of its impact assessment, including the accuracy and completeness of disclosures required in the 2021/22 financial statements.

We will continue to work with management to proactively agree any material changes to financial statement accounting and related disclosures following amendments to the underlying CIPFA code.

### **CIPFA/LAASAC Code for 2021/22**

Local authorities are required to keep their accounts in accordance with 'proper (accounting) practices'. Public sector organisations responsible for locally delivered services are required by legislation to comply with the terms of the Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

The CIPFA/LAASAC Code on local authority accounting in the United Kingdom for 2021/22 includes a number of amendments. These changes include:

- ▶ Reframing the Code requirements in terms of UK-adopted standards rather than EU adopted standards, reflecting the United Kingdom's withdrawal from the European Union.
- ▶ Confirmation of the accounting arrangements for the Dedicated Schools Grant to reflect changes to the statutory requirements.
- ▶ Amendments to confirm the existing adaptation in the Code for standards issued but not yet adopted.
- ▶ Augmentations to the reporting of estimation uncertainty.
- ▶ Confirmation of the reporting requirements for interest rate benchmark reform.

The Code includes an appendix on the future implementation of IFRS 16 Leases standard which has been deferred for a further year, as outlined on the previous page.

It is important that management performs its own assessment of the impact in advance of preparation of the 2021/22 financial statements. We will continue to discuss relevant matters with management in advance of the financial yearend to ensure agreement is made on any amendments in the most efficient manner possible.

# Best Value and Wider Scope dimensions

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to the overall assessment and assurance on the achievement of Best Value.

## Introduction

We are required to reach conclusions in relation to the effectiveness and appropriateness of the Council's arrangements for the four wider scope audit dimensions. We also draw upon these assessments and other work to form conclusions on the Council's ability to demonstrate Best Value in its activities. In undertaking our work in respect of the wider scope audit dimensions, we also integrate our assessment of the Accounts Commission's five Strategic Audit Priorities.

We apply our professional judgement to risk assess and focus our work on each of the wider scope dimensions. In doing so, we draw upon conclusions expressed by other bodies including the Council's internal auditors, and the other scrutiny bodies that we work with on the Local Area Network including Education Scotland and the Care Inspectorate, along with national reports and guidance from regulators and Audit Scotland. As the appointed auditor, we are the LAN Lead. The LAN has determined, in agreement with the Council, that no separate scrutiny plan is required for 2021/22.

For each of the dimensions, we have applied a RAG rating, which represents our assessment on the adequacy of the Council's arrangements throughout the year, as well as the overall pace of improvement and future risk associated with each dimension.

- ▶ **Financial Sustainability:** Considers the medium and longer term outlook to determine if planning is effective to support service delivery.
- ▶ **Financial Management:** Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- ▶ **Governance and Transparency:** Considers the effectiveness of scrutiny and governance arrangements and the transparent reporting of financial and performance information.
- ▶ **Value for Money:** Considers whether value for money can be demonstrated in the use of resources and the focus on continuous improvement.



# Financial Sustainability

The adoption of the Medium Term Financial Strategy (MTFS) and supporting governance arrangements meant that the Council had a clear financial plan in advance of the impact of Covid-19. Updates to the MTFS for 2022/23 budget will be presented to the Council later in 2021 however, as in 2020/21, we anticipate that the Council will continue to rely on one-off measures. Early work is ongoing by officers for the development of the next MTFS to ensure the new administration can commence work early in their term on addressing the financial challenges which face the Council over the future planning period.

Our assessment of amber reflects the ongoing challenge facing local authorities and the level of risk and uncertainty outside the Council's control which could impact its ability to deliver savings, all of which has been exacerbated by the ongoing impact of Covid-19. However, there remains a need for continued member and officer focus on maintaining financial sustainability and fulfilling the statutory responsibility of members to determine balanced budgets over the medium term. This will require challenging decisions on relative service priorities and associated expenditure commitments, careful evaluation of new spending commitments and the delivery of challenging levels of savings as the Council moves into its next planning period.

A  
M  
B  
E  
R

## Medium Term Financial Planning to 2022/23

The Council's Medium Term Financial Strategy (MTFS) was approved in June 2019, and represented a step change in the Council's strategic financial planning. Initial resource allocation measures reduced the budget gap over the three years to 2022/23 from £18.8 million to £8.3 million. The cross-party Business Transformational Steering Group was tasked with assessing and approving further proposals to deliver a sustainable financial plan, drawing upon consultation with communities.

The pandemic brought a shift in the usual financial planning parameters and timetable with the draft local government settlement only being published on 1 February 2021 and the final version agreed in March 2021. The Council received an MTFS update, along with finalised 2021/22 budget projections in February 2021. Based on the draft settlement, the Council agreed to freeze council tax levels, along with fees and charges, to recognise the unique pressures created by the pandemic and to help protect household incomes. A planned rent increase was delayed for the same reasons.

A 'corporate solution' was developed to support the achievement of a balanced budget in both 2021/22 and 2022/23. This solution relates to the conclusion of the Loans Fund review.

The budget also recognised that a number of savings originally planned for 2021/22 were either not feasible to implement or would be delayed, recognising the scale of the challenge facing the Council as it continues to operate in a Covid-19 environment.

## 2021/22 Performance to date

Like all councils in Scotland, the impact of the Covid-19 pandemic continues to create significant financial pressure in 2021/22. We do, however, note that the Council's most recent financial update report, prepared in August 2021, forecasts a small surplus of £0.323 million for the financial year. This represents an improvement against prior years, where we have noted that the Council historically reports overspends in the early part of the financial year, although we note that risks remain within the budget particularly due to the ongoing uncertainty regarding Covid-19 and associated recovery plans.

While the Council has managed its finances well to respond to the pressure on services and communities caused by the pandemic, the reliance on one-off savings and solutions is not sustainable in the medium term.

We also note that the Council is heavily reliant on one-off, non-recurring measures such as the Loans fund review to support the balanced budget. Accurately forecasting early in the financial year is always challenging, but the ongoing uncertainties make this task more difficult. Cost pressures identified to date include:

- ▶ Additional fleet repairs and maintenance costs of £0.4 million;
- ▶ Insurance premium increases of £0.3 million; and
- ▶ £0.5 million of cost reductions which have still to be finalised.

These costs are more than offset by favourable movements due to vacant posts held pending service reviews, lower pupil numbers and an easing of pressure on the Family Placement and Residential Respite budget

The revenue budget took account of the forecast impact from Covid-19 including assumptions around significant service income loss and that no dividend will be received from Lothian Buses. Some cost pressures have also been eased by the additional non-recurring Covid-19 funding of £259 million announced by the Scottish Government on 28 January 2021, with the Council's share being approximately £4.4 million.

## Risks and uncertainties within the MTFS

There are a number of other areas of uncertainty that could materially impact the Council's delivery of financial plans, balanced budgets and the underlying required savings. These include the risks around accuracy of key assumptions such as around inflation, pay awards and demographic drivers of income and expenditure.

The MTFS notes cost pressures as a result of demographic demand exceeding budget estimates as a key risk. Rising school rolls place a significant pressure on the Council's capital and revenue planning. The 2020/21 education budget anticipated savings of £3 million, but as a result of delays to consultation management forecast that only £0.6 million will be achieved in year, resulting in a cost pressure of £2.4 million. This was subsequently addressed through the "mini budget" exercise instructed by Council.



Other savings that have not progressed as planned as a result of the pandemic include:

- ▶ the delayed implementation of the second phase of the management review;
- ▶ cost reductions relating to digital service provision; and
- ▶ efficiency targets within the Place Directorate.

### **Funding disparity**

In March 2021, the Scottish Government published the Green Book, which provided additional transparency about the methodology applied to allocate central government funding to councils. One of the key factors adopted within the funding model for 2021/22 is the National Records of Scotland (NRS) population estimate, for which the 2019 mid-year estimate is adopted as the indicator. As the Council is experiencing the highest population growth in Scotland, it faces a particular challenge as the funding model does not keep pace with population changes. Based on NRS estimates, the Council's population in 2020 has increased by 0.7% since 2019, compared to a 0.05% increase across the whole of Scotland. In previous years, the disparity has been felt more acutely through the floor mechanism. That is funding assessed as being required for Midlothian which is redirected to provide a degree of stability to other Councils, including those with reducing populations. However, for the 2021/22 grant settlement, Midlothian has not contributed to the floor mechanism compared to a £1.8 million contribution in 2020/21. The reduction in the contribution to the floor in 2021/22 is a temporary adjustment which relates to the ending of historic loan charge support and consequent reduction in assessed grant partly dampened by the floor mechanism. Continued and rapid population growth is likely to require the Council to continue to contribute to the floor for 2022/23 and beyond.

During last years audit, we noted that Audit Scotland drew attention to a specific funding challenge facing Midlothian within their national report, *Early Learning and Childcare Follow up*, relating to the rollout of additional funded childcare hours. Due to a decision to base funding allocations on 2014 population figures, the funding that the Council will receive is 24% less than required due to the rapid growth in early years population.

### **Covid-19 Recovery Planning**

In June 2020, the Council approved the local "route map", outlining the steps that will be taken in a four phase recovery through and out of the Covid-19 crisis.

The Council's local route map reflects Scottish Government guidance and will have an impact on other strategies as priorities change to reflect the anticipated impact on vulnerable communities.

The route map identifies a number of key priorities to guide decision-making:

- ▶ Economic Renewal;
- ▶ Accelerated Capital Programme for Housing and the School Estate;
- ▶ Education Recovery Plan;
- ▶ Hub and Spoke Place Service Delivery;
- ▶ Health and Social Care Transformation; and
- ▶ Digital by default, remote working and Carbon Neutral by 2030 approaches to the workplace and active travel.

The route map includes use of a significant, and accelerated, capital programme to prioritise economic and social recovery from the crisis, including additional social housing which will, whenever possible, be located close to community facilities.

As a result of the recovery and renewal plans captured within the route map, change and transformation plans that were in place have been superseded. The Council recognised that in order to deliver the transformation at the pace required, it has been necessary to review and reset delivery plans. Eight Strategic Transformation Boards have been created in line with the Council's priorities to drive improvement at pace:

- ▶ Carbon Neutral by 2030;
- ▶ Digital First;
- ▶ Economic Renewal;
- ▶ Education recovery;
- ▶ HSCP Transformation;
- ▶ Hub and Spoke Based Transformations; and
- ▶ Remote working.

# Financial Management

The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid-19. Financial reporting is clear and consistent throughout the year. The Council's financial regulations and financial directives are currently under review alongside a number of key governance documents including Standing Orders.

The importance of good financial control is clearly understood across the Council. Our interactions with finance through the year identified a robust financial management environment and no material financial control deficiencies. We did not identify weakening financial management arrangements following the changes to the established working arrangements following Covid-19.

## Financial control environment

While our financial statement audit work is not designed to express an opinion on the effectiveness of internal control, we consider the financial control environment through the course of our interactions and observations through the audit. Based on work undertaken, we have not noted any material deficiencies in internal control.

A suite of key governance documents were due for review at the time the pandemic hit, including the financial regulations. The review of these documents is ongoing with the intention they will be subject to approval by Council in late 2021/22.

The Council's financial regulations and financial directives are currently under review alongside a number of key governance documents including the Scheme of Delegation, Standing Orders and Scheme of Administration. A working group has been established and the updated documents will be presented to Council for approval.

The Council's section 95 officer is the Chief Officer - Corporate Solutions. We are satisfied that the Council adheres to the principles laid out within CIPFA's Statement on the role of the Chief Financial Officer in Local Government. In our view there is evidence that the Council continues to have sufficient financial skills, capacity and capability.

## Ongoing impact of Covid-19

In 2019/20 we reported that we had not observed issues with the capacity or capability of the finance team following its previous restructures or following the impact to working arrangements due to Covid-19. We have not identified any significant changes to key processes and controls across the finance function through our observations in 2020/21. There continues to be additional pressure on the capacity of the finance team in the ongoing environment, however information related to the audit and financial statements continues to be provided in a timely manner and to a reasonable overall standard. The financial management capacity of the Council, in particular related to the longer term impact of Covid-19 on working arrangements, will require to be subject to continued monitoring.

## Financial monitoring and outturn

The Council's financial monitoring arrangements have been broadly consistent with previous years, however they continue to be supplemented with additional monitoring and reporting to reflect the additional risks around Covid-19. The Council's budget position originally set in February 2020 has moved significantly during the year with these changes primarily being driven by the impact of Covid-19, rather than issues with forecast arrangements.

### Exhibit 3: The Council has updated its forecast yearend position through the financial year

Reporting period	Aug-20	Nov-20	Feb-21	Outturn
Forecast surplus / (deficit)	(£1.19m)	(£0.49m)	£0.58m	£0.76m
Forecast General Fund balance	£3.4m	£3.4m	£3.5m	£3.8m

Source: Midlothian Council 2020/21 Financial monitoring reporting

Separate reporting to Council has enabled clear transparency of the financial impacts of Covid-19 on the financial position. Specifically, we note that during the year the Council:

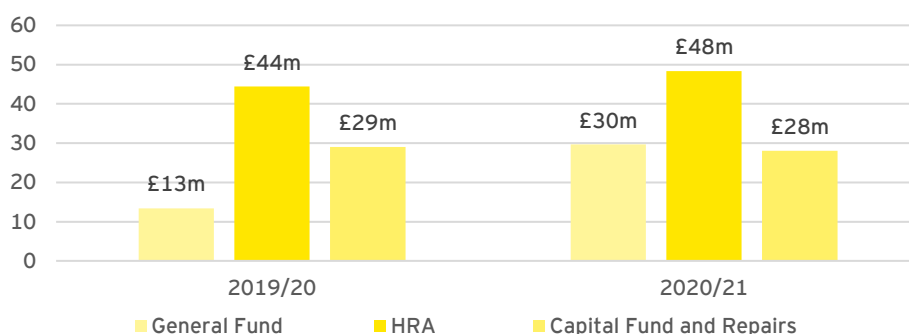
- ▶ Received additional grant funding of £23.832 million;
- ▶ Incurred response costs of £5.9 million, offset by specific funding received totalling £3.6 million; and
- ▶ Lost income of £8.2 million including in relation to sports and leisure and catering arrangements.

## Council reserve levels and strategy

The Council's uncommitted general fund reserves remains in line with the approved reserves strategy. The forecast position for 31 March 2022 is projected to increase to £4.1 million.

As part of the annual revenue budget setting process, the Council approves the minimum reserves to be held as uncommitted general funds. For 2020/21 it concluded that the uncommitted balance should be maintained at a minimum of 2% of net expenditure (excluding the IJB allocation) which equates to £3.63 million. At 31 March 2021 the Council's uncommitted general fund balance was £3.8 million, representing a small decrease from the 2020 balance of £4.05 million.

### Exhibit 4: The Council's cash backed reserves increased by approximately £19.2 million in 2020/21



Source: Midlothian Council 2020/21 Financial Statements

## Capital programme

The Council spent £41.2 million on capital expenditure in 2020/21 (2019/20: £58 million), an overspend of £0.6 million against its original budget. This reverses a historic trend of slippage against the capital budget. We do, however, note that rephasing during the year was required for a number of capital projects primarily due to the impact of Covid-19 and Brexit on availability of materials and equipment and social distancing onsite and this may have an impact on the capital programme in future years.

The capital programme plays a crucial role in the Council's route map to respond to the pandemic. However, it is clear that ongoing supply chain issues may impact the Council's ability to deliver this significant capital programme and will require careful monitoring to ensure that the programme remains affordable within the context of the Council's MTFS.

In order to ensure the Council has the appropriate skills and capacity to deliver the ambitious capital programme, the Council has appointed two Heads of Development to support programme delivery. The Council has additionally progressed with making improvements to monitoring and reporting processes through the Capital Plan and Asset Management Planning Board. Work continues to ensure this framework is being applied consistently across all large capital projects.

## CIPFA financial management code

The Council has demonstrated a strong level of compliance with the CIPFA financial management code on its implementation for 2021/22.

The CIPFA Financial Management Code comes into effect for all councils in 2021/22. It is intended to support good practice in financial management, assist in demonstrating a local authority's financial sustainability, and set out standards of financial management. A short-life working group was established in March 2021 to perform the self-assessment and review compliance against each of the 17 standards. The assessment will be reviewed by the Corporate Management Team with the intention that an annual progress report is presented in future years. The assessment demonstrates the Council's existing compliance with the majority of the Code and sets out proposed actions to ensure compliance with the code in 2021/22. This will be subject to ongoing monitoring.

## Procurement

The effectiveness and appropriateness of the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function was an area of focus for the audit in 2019/20 where we highlighted that the Council must address capacity weaknesses as a matter of urgency.

The Council has subsequently secured additional capacity within the procurement team, including an additional procurement assistant and recruitment of a Procurement Manager. A strategic procurement review from Scotland Excel was commissioned and completed with a final report provided in March 2021. The report provided by Scotland Excel will provide the new Procurement Manager with an action plan to be progressed.

Our audit procedures identified that the Council migrated its mobile voice and data services contract to the Scottish Government Framework in June 2021. The Framework had been published in March 2020. We recognise that significant work was required to progress the migration at the time that the service was required to give priority to the response to the pandemic, including sourcing devices for staff working remotely against the backdrop of a global shortage. As a result, the new contract was signed on 5 May 2021 with migration completed by the supplier on 10 June 2021.

The Scottish Government mobile voice and data services framework provides the Council with a data sharing plan which better meets the Council's requirements in relation to the mobile and data services for members and officers, particularly in the context of remote working and reliance on data for access to the internet. The new contract is more efficient and cost-effective than the previous set data allowance, and the Council has identified that it will see a reduction in quarterly billing cost. While it is acknowledged that the contract migration was adversely impacted by Covid-19, the opportunities presented by the new framework contract value reinforces the need for the Council to continually review its existing contracts and contract management arrangements to ensure that they deliver best value.

### **Treasury Management**

Our audit plan identified treasury management as an area of audit focus for our 2020/21 audit. The results of our additional procedures in this area were reported separately to the Audit Committee on 22 June 2021. Our report concluded that:

No significant findings were identified in relation to the Council's Treasury Management arrangements with only minor areas for improvement identified.

- ▶ The Council's policies and procedures reflect the requirements within CIPFA's Treasury Management Code and Prudential Code. A planned update in 2020/21 should be subject to scrutiny by the Audit Committee.
- ▶ While it is more challenging to perform robust due diligence checks on local authorities, the Council has developed a draft checklist to provide an audit trail of the decision making process and checks performed.
- ▶ Annual, mid-year and outturn reports on Treasury Management are considered by the Council and the Audit Committee and cover the key requirements of the Codes.
- ▶ Training for elected members has been provided but we noted that areas of challenge and scrutiny by audit committee members have not been as fully minuted as they could be.

Based on our work at final audit fieldwork, we note that 3 of the recommendations were complete including in relation to ensuring discussions from committee are fully minuted. One finding remains outstanding and completion is dependent on the finalisation of the revised Treasury Management Code.

# Governance and Transparency

The key features of good governance remain in place at the Council. As noted in our prior year consideration, the Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic.

The Council's Audit Committee assessed itself as having a medium degree of performance and effectiveness during the year. A review should be undertaken to ensure that governance arrangements following the forthcoming local government elections meet the changing scrutiny needs of the Council.

## Local Code of Corporate Governance

In 2020/21 the Council considered the effectiveness of its arrangements against the CIPFA framework for *Delivering Good Governance in Local Government*. The results of the review and updated Local Code of Governance were considered by the Council in March 2021.

the Council uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement. This is supplemented in 2020/21 by CIPFA's Bulletin 6 which provides guidance concerning the impact of the continuing Covid-19 pandemic on governance in local government bodies and takes into account the introduction of the CIPFA Financial Management Code.

During 2020/21, officers performed a detailed review and update of the Council's Local Code of Corporate Governance with the Code presented to Council for approval in March 2021. The Code review informed the annual assurance process including completion of the Annual Governance Statement.

The governance statement for 2020/21 concluded 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."*

The Annual Governance Statement includes a summary of the impact of Covid-19 on governance arrangements and how management has responded to ensure adequate governance arrangements remained in place, particularly through the initial lockdown period. This included reference to the statutory mechanisms available to the Council, both through new and existing legislation, and where the Council took advantage of these mechanisms. We were satisfied regular and consistent communication and decision making arrangements were developed quickly. In the main the Council continued under existing arrangements with minimal use of extraordinary measures.

Arrangements were quickly developed to ensure that the Council was kept informed of the impact of Covid-19, and that key governance arrangements could continue during the lockdown.



**Recommendation 2:**  
While the Annual Governance Statement is in line with current requirements, there is an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge.

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity.

We do, however, note that there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement. In our view, the improvement actions identified within the current statement do not fully reflect the significant changes in the environment that have evolved in the period since the last Best Value Assurance Report. Our assessment of progress against the recommendations is also addressed on page 42.

### **Covid-19 Governance arrangements**

As reported in our 2020 Annual Audit Report, the Council moved to revised governance arrangements at the beginning of the UK lockdown period in March 2020. Council and committee meetings scheduled over the summer of 2020 were undertaken remotely, including the Audit Committees, and this remains the case at this time.

Risks associated with the pandemic continue to be monitored and reported by the Council's Corporate Incident Management Team and the Corporate Management Team and reported to the Council's Audit Committee accordingly.

### **Internal audit activity**

The internal audit work planned for the year 2020/21 was mostly completed in line with planned deadlines by 31 March 2021. Work remained ongoing at all times, however the nature of a number of reviews meant that they could not be completed under a lockdown environment to the same timetable as originally planned. The delayed work has been rolled into the 2021/22 work plan for internal audit.

In addition to its ongoing programme of new reviews, internal audit continues to monitor the progress against existing recommendations and report to the Audit Committee on outstanding recommendations from internal and external parties, with a focus on those recommendations which are graded as higher priority.

## Governance arrangements

The Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers in usual circumstances, and agendas and papers are available in advance of each meeting. While these arrangements were temporarily unavailable during the year as a result of meetings being held remotely due to the pandemic, minutes of meetings, including key decisions, remained publicly available after the meetings. Key Council and committee meetings can be accessed to meetings via livestream or video broadcasting.

The Council's governance arrangements have continued to operate as planned, including evidence of scrutiny and challenge of officers.

We have continued to observe the Audit Committee throughout the year as part of our attendance at each meeting. We also monitor Council and other committee meetings through review of the agendas, supporting papers and minutes. We have observed that generally papers are sufficiently comprehensive to understand key matters, and there is evidence of scrutiny of management at these meetings.

As we note on page 32, we conducted an additional review of Treasury Management in 2020/21 to reflect an area of concern highlighted by the Audit Committee. While it is appropriate for the Audit Committee members to highlight areas of financial risk impacting the Council and seek assurance from officers, one of the key characteristics which enhances the effectiveness of local government audit committees is that they act in an apolitical, balanced and objective way. The role of the Audit Committee chair is important in ensuring these characteristics are observed by all participants. In our view, some discussions and challenge at Audit Committee have been less balanced and may have diverted resource and focus away from other significant risks facing the Council during the response to the pandemic.

The Audit Committee undertook its annual self-assessment of the effectiveness of its arrangements in May 2021. While the overall assessment was positive, the committee noted areas for improvement including the use of the CIPFA Skills and Knowledge Toolkit and understanding of the effectiveness of other committees on which the Audit Committee places reliance. The wider review against CIPFA guidance also noted that two of the current six elected members on the Audit Committee are in the Cabinet. The Annual Report from the Audit Committee Chair recommends that consideration should be given to:

- ▶ Excluding the Audit Committee membership from the Scheme of Administration requirement; or
- ▶ Ensuring that the Membership of the Audit Committee should exclude members of the Cabinet.

**Recommendation 3: The Council should review audit committee arrangements post-election to ensure that governance arrangements reflect the political and strategic environment.**

In our view, the role of independent members on the committee, together with the benefit brought to the committee as a result of the wider roles and experience of the two Cabinet members, has outweighed any risk impacting independence. More widely, we would note that the role and membership of the Audit Committee should be considered by the new Council, following the forthcoming local government elections in May 2022. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value. Additional forward-looking focus may be helpful for the new Council in the context of a new Strategic Plan and MTFS, and focus of the Financial Management Code.

### Arrangements to prevent fraud and corruption

The consideration of financial management also includes evaluating the Council's arrangements for fraud and corruption. CIPFA's *Code of Practice on Fraud and Corruption* notes that leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations. The Council approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy on 25 August 2020. A new Integrity Group was established in 2020 with the purpose of the Group being to improve the Council's resilience to fraud, corruption, theft and crime.

The Council draws upon national publications to highlight fraud risks, including the Audit Committee's consideration in October 2020 of Audit Scotland's publication *Covid-19: Emerging Fraud Risks*. The Integrity Group prepared a self-assessment against the fraud risks identified within the report which was reported to committee in March 2021. The results of this assessment identified two areas where action was necessary which officers were already addressing:

1. To ensure up-to-date financial regulations and directives are in place.
2. To strengthen the capacity and skills in the Procurement Team.

### Financial control arrangements around Covid-19 income and expenditure

From March 2020, the Council received, managed and distributed significant additional funds in relation to support from the Scottish Government related to addressing the impact of the Covid-19 pandemic.

The Council has considered and monitored the potential for fraud and misuse of Covid-19 grants throughout the financial year:

- ▶ As outlined on page 31, the Integrity Group has reviewed specific Covid-19 fraud risks and will continue to review and report and report to Audit Committee.
- ▶ The main Business Grant scheme was administered on the Council's behalf by City of Edinburgh Council who administer the Non-Domestic Rates billing and Collection for the Council, due to the close alignment of this grant scheme with NDR. As a result, reliance was placed on the internal controls and financial governance arrangements of City of Edinburgh Council. We note 92 applications have been identified as potentially fraudulent and reported to Police Scotland.
- ▶ In respect of the grant schemes administered by the Council, such as the self-employed and B&B grants schemes, the Council implemented a number of additional controls including ensuring there was segregation of duties in place and a full audit trail. The Council has also fulfilled weekly reporting to the Scottish Government.

Additional controls and reporting arrangements have been implemented to address the risks around the additional funding received due to Covid-19.

### **Audit Scotland National Fraud Initiative (NFI) programme**

NFI is a counter-fraud exercise co-ordinated by Audit Scotland and overseen by the Cabinet Office to identify fraud and error. The annual exercise produces data matches by comparing information held on public bodies' systems to identify potential fraud or error. In June 2019 we submitted an assessment of the Council's participation in the exercise to Audit Scotland, concluding that the Council has actively participated in the NFI exercise and that it is well embedded within the Council's proactive counter fraud workstream. A follow up review was completed in February 2020, with no further matters to report.

The 2020/21 NFI exercise commenced in September 2020. From 5,984 data matches identified 340 of the data matches were classed as being 'High Risk'. The deadline for completion of the 2020/21 NFI exercise is 31 March 2022. The Council is continuing to make progress and demonstrating active participation in the NFI matching exercise.

# Value for Money

A  
M  
B  
E  
R

The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. Recent improvements have been piloted to the presentation of performance reports to support members in performing their scrutiny role effectively.

We note that performance continues to fall short of the targets set within the Council's own performance management framework although improvement has been noted in a challenging year. The Council should continue to review the targets to ensure that they are achievable and represent changing priorities.

**Recommendation 4:** The Council's performance reporting should continue to be reviewed to ensure performance can be readily assessed and scrutinised including through greater use of graphics where appropriate.

## Performance Management framework

The Council monitors its performance against its plans and performance indicators throughout the year. Quarterly scorecards are provided by management to both Council's Cabinet and the Performance, Review and Scrutiny Committee, and are made available for public information as part of the committee papers on the Council's website. These reports outline the full set of performance indicators included by the Council in its corporate plan, and the current performance of each indicator against target summarised through a 'RAG' rating system.

Performance reports available publicly, including quarterly updates, continue to be heavily narrative based. We do, however, note that elected members have direct access to more detailed performance data within the Pentana Browser. Recent use was also made of a summary presentation to Cabinet in September 2021 which included a greater level of graphics and data analysis. Management should continue to review the presentation of performance reports, including seeking member feedback to ensure data is presented in an accessible manner which supports members in performing their scrutiny role effectively.

## Impact of Covid-19

The Council's overall performance management framework remains in place and operating despite the impact of Covid-19 on the management priorities and additional urgent business requiring prioritisation at committees. As a result, performance reporting to Cabinet and to the Performance, Review and Scrutiny Committee was delayed until September 2020.

## 2020/21 Performance Outcomes

The 2020/21 Annual Performance Report outlines a number of key achievements during the year, including the changes made to service delivery as a result of the pandemic which improved partnership working. The report recognises the significant challenges that services experienced and how teams responded to the challenges that the pandemic brought. The key corporate performance indicators for 2020/21, as established and reported by the Council, demonstrate improvement despite the challenging year, although 5 of the Corporate Performance Indicators remain classified in the red category (2019/20: 8).

## **Accountability and delivery of improved outcomes**

Key indicators within the Council's balanced scorecard provide an assessment of progress against the priorities within the Single Midlothian Plan alongside other services indicators. The final balanced scorecard for 2020/21 was presented to the Performance, Review and Scrutiny Committee in June 2021. This reports that, for those indicators where data is available in relation to the Single Midlothian Plan, 52% of indicators are on track for delivery, however, we note that data was only available for 12 indicators compared with 50 in the equivalent report for the prior year. The lack of available data results in challenges in meaningfully assessing the Council's performance. While we note that the Council relies on partners to provide data, the timescale under which the annual balanced scorecard is produced and reported should be reviewed to ensure it includes meaningful data that can be used to evaluate the Council's performance.

As part of its response to the Best Value Assurance Report, the Council has implemented a digital dashboard performance management system to allow elected members to have access to up to date performance data, along with mitigating actions for all indicators.

## **Statutory Performance Indicators**

The Accounts Commission has a statutory responsibility to define the performance information that councils must publish. The Council has a responsibility, under the duty of Best Value, to report performance to the public. The Accounts Commission issued a revised 2018 Statutory Performance Information Direction in December 2018 which recognises the role and effectiveness of the LGBF, but continues to require councils to report:

- ▶ performance in improving local public services provided by the Council (on its own and with its partners and communities), and progress against agreed desired outcomes;
- ▶ assessment and independent audit assessments of how it is performing against its duty of Best Value, and how it plans to improve these assessments; and
- ▶ how it (with its partners where appropriate) has engaged with and responded to its diverse communities.

The Council has been required to meet the requirements of the revised Statutory Performance Information Direction from 2019/20.

The Council continues to report a range of performance information to stakeholders and the public to demonstrate the relative value and effectiveness of Council services. Information reported covers the quality and effectiveness of local services and progress in outcomes, as well as efficiency information.

This includes reporting of the most recently available LGBF results to the relevant committees and to the public. *[At the time of drafting this report, the LGBF reporting has not been finalised for reporting for 2019/20.]*

We note that while the Council continues to publish performance reports regularly on the Council website, the Public Performance report for 2020/21 is yet to be published at the time of writing. We will continue to monitor and consider the adequacy of reporting against the revised requirements in 2021/22.

### **Community and Staff Engagement**

The Council recognised that the pandemic has significantly changed the working practices of staff with service delivery constantly evolving to meet the requirements of the Midlothian community as well as remain compliant with government guidance and ensure staff welfare is maintained.

The Council recognised that while the last 18 months have been challenging, it's an opportunity to deliver real change. Working with Nesta, the Council conducted interviews with Council staff within different areas of the organisation to understand their experiences during the pandemic and the experience can be learned from to shape the future Midlothian Council. Insights from the report, which has been published on the Council website, were shaped into 5 themes:

- ▶ Valuing Community
- ▶ Remote/Flexible working
- ▶ Digital First
- ▶ Leading new ways of working
- ▶ Education

The report was approved by Cabinet in September 2020 with recommendations being incorporated within service plans accordingly and have been reported on within the Council's Annual Performance Report. Key developments during the year include the approval of the Council's Digital Strategy in June 2021. The strategy sets out how over the course of the next 3 years, local outcomes will be improved by delivering digital services to digitally connected communities.

The Council was recently recognised for significant innovations in improving public services for the #kindnessmidlothian campaign which was launched at the start of the pandemic to ensure communities were supported through the challenging time through the IESE Public Sector Transformation Awards.

The Council has demonstrated commitments to engage and gather feedback from both local communities and staff to shape the delivery of future services.



# Best Value

Our Best Value Follow Up work was postponed in 2019/20 to allow the Council to reflect on learning and implications of the recovery from the pandemic. In 2020/21, Audit Scotland supported our work to carry out a focused review of the progress that the Council has made against the recommendations made within the Best Value Assurance Report published in July 2019. We have drawn upon these judgements, along with our wider scope and other work to conclude on the Council's approach to Best Value. We note through work undertaken in the year that the Council has a number of key characteristics of Best Value in place, including an effective approach to strategic planning post-pandemic and improved financial planning arrangements.

Our work this year and in the extended year 6 of our appointment will finalise all areas of our consideration around Best Value in the appointment period.

## Forming our judgement




As appointed auditor, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities. In forming this judgement, we draw upon the work conducted in response to our wider scope responsibilities as outlined in this report. This includes drawing upon the work we complete around the Best Value coverage areas outlined on page 45 of this report, and our wider understanding of the Council's arrangements through the year. In particular this year we have considered the work supported by Audit Scotland to consider progress against the recommendations within the BVAR. We note that Audit Scotland was content with the progress made by the Council despite the challenging period since the publication of the report.

## Looking ahead




In 2019/20 we reported that the Council had rightly focused on the immediate impact and required work resulting from the global pandemic. We noted that, as the immediate impact of Covid-19 transitions to assessing its longer term impact on the Council, its service users and wider public as well as other public bodies, it is important that the Council continues to reassess its own arrangements for Best Value in this changing environment. This should include both the Council's delivery of Best Value as services and priorities evolve and its own internal arrangements for ensuring its priorities are focused correctly and monitored and reported.

Our Best Value work planned for the remainder of our appointment period, as outlined on page 45, will allow the opportunity to observe how the longer term impact of Covid-19, in addition to the other more established risks and challenges facing local government generally and the Council specifically, will be considered as the Council works towards developing an updated corporate plan supported by its next medium term financial plan.

## Exhibit 5: Our assessment of progress against Best Value Assurance Report recommendations

Best Value Assurance Report Recommendation and Commentary	Our Assessment
<b>1. As a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the council's transformation plans (paragraphs 28, 64-65, 73-74, 130-132).</b>	
<ul style="list-style-type: none"> <li>▶ The Council agreed its Medium Term Financial Strategy in June 2019. There was cross party recommendations made to Council in February 2021 to implement a corporate solution for the 2021/22 budget, ensuring the need for no additional service reductions at an already challenging time for communities. A similar corporate solution will be progressed for the 2022/23 budget.</li> <li>▶ As a result of the Covid-19 pandemic, the Council developed a new strategic approach to transformation in the form of the Midlothian Route Map through and out of the crisis which was approved by Council in June 2020.</li> <li>▶ In April 2021 the council agreed a revised remit of the Business Transformation Board (BTB) and supporting governance arrangements to drive the strategic route out of the Covid-19 pandemic at pace.</li> </ul>	
<b>2. The council needs to develop and sustain more constructive relationships between members and between members and officers. It needs to implement effective cross-party governance arrangements to ensure that it delivers the medium-term financial strategy and transformation plans (paragraphs 22-25, 28, 74, 131-132).</b>	
<ul style="list-style-type: none"> <li>▶ Elected member oversight of transformation plans and financial strategy is provided by the Business Transformation Steering Group. This is led by the council leader and comprises a cross party forum.</li> <li>▶ Additional cross party groups have been established for Education, and recently agreed for Digital and Place.</li> <li>▶ The Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of regular reporting arrangements throughout the pandemic.</li> </ul>	
<b>3. The council needs to ensure that workforce planning reflects the medium-term financial strategy (paragraph 86).</b>	
<ul style="list-style-type: none"> <li>▶ The workforce strategy was approved by Council in December 2019 but the impact of the pandemic has led the Council to revise its strategic approach to workforce planning. The Council's important work with NESTA included consultation with staff and communities in July 2020 to achieve consensus about future priorities. The feedback identified five guiding priorities: <ul style="list-style-type: none"> <li>1. Valuing Community</li> <li>2. Remote/Flexible Working</li> <li>3. Digital First</li> <li>4. Leading New Ways of Working</li> <li>5. Education</li> </ul> </li> <li>▶ The Council has prioritised workforce gains by setting up a workstream of the business transformation programme focused on workforce deployment. The remote working board has been established to lead progress in this area. It's purpose includes, providing strategic leadership over the delivery of strands of work which are identified as being required to deliver sustainable remote working outcomes for the delivery of services. Initial areas of activity include: <ul style="list-style-type: none"> <li>• A Digital Route Map to support a sustainable Remote Working hub and spoke placed service delivery</li> <li>• Property Route Map to support Remote Working</li> <li>• Development of a vision for how locality based assets can support remote working/hub and spoke placed service delivery, including opportunities for office rationalisation.</li> </ul> </li> </ul>	

## Exhibit 5 continued

Best Value Assurance Report Recommendation and Commentary	Our Assessment
<p>4. The council should undertake a review of its capital programme, to ensure that the timeframes for delivery are achieved going forward and that monitoring and reporting mechanisms are enhanced to drive more accurate analysis and planning around capital work (paragraphs 80-82).</p>	
<ul style="list-style-type: none"> <li>▶ The capital programme has been accelerated in line with the Midlothian Route Map Through and Out of the Crisis which was approved by Council in June 2020. Supporting capital projects were approved by Council in June and August 2020. Two new Heads of Development have been appointed to take forward the ambitious programme at pace. The latest iteration of the capital plans, including pipeline progress sets out investment of circa £0.8bn over the period.</li> <li>▶ The Council has revised its approach to capital programmes through establishing a capital strategy board underneath the BTB. The purpose of the group is to ensure a joined up approach to deliver the strategic objectives of the Corporate Asset Management Strategy and Capital Investment Strategy. It's terms of reference, set out in April 2021, includes consideration Outline Business Cases for significant projects emerging from Asset Management Plans.</li> </ul>	
<p>5. The council need to continue to implement financial planning arrangements to address budget gaps, underpinned by robust financial budgeting and monitoring arrangements (paragraphs 75-79)</p>	
<ul style="list-style-type: none"> <li>▶ As noted above, the Medium Term Financial Strategy was approved by Council in June 2019 with cross party recommendations made to Council in February 2021 to implement a corporate solution for the 2021/22 budget, ensuring the need for no additional service reductions at an already challenging time for communities.</li> <li>▶ Our wider scope work noted that good financial management arrangements and control of the in-year budget are in place, including understanding of the ongoing impact of Covid-19</li> <li>▶ The Finance Team has led a discussion about the current format of financial monitoring reports with the Corporate Management Team to ensure that the reports meet the changing requirements of the Council.</li> </ul>	
<p>6. The council should refine its vision in light of the outcome of consultation work through the Services with Communities transformation workstream and to ensure that it focuses its activity most effectively (paragraph 19).</p>	
<ul style="list-style-type: none"> <li>▶ As noted above and in our 2019/20 Annual Audit Report, the Council acted quickly to learn the lessons from the pandemic and to underpin future strategic planning. The Routemap through and out of the crisis outlines priority interventions in: <ul style="list-style-type: none"> <li>• Economic Renewal</li> <li>• Accelerated Capital programme for Housing and the School Estate</li> <li>• Education Recovery Plan</li> <li>• Hub and Spoke Place Service Delivery</li> <li>• Health and Social Care Transformation</li> <li>• Digital by default, Remote working and Carbon Neutral by 2030 approaches to the workplace and active travel.</li> </ul> </li> </ul>	

## Exhibit 5 continued

Best Value Assurance Report Recommendation and Commentary	Our Assessment
<p>7, Elected members need to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities (paragraphs 25, 59-62).</p> <ul style="list-style-type: none"> <li>▶ The Council provides a variety of opportunities for elected members to receive training and learn more about specific parts of Council services. Tailored training has been provided to meet the needs of councillors, included a well-attended training session on Treasury Management.</li> <li>▶ Alongside the new ways of working during the pandemic, the Council has recently introduced personal development plans for elected members. The Council intends that following an induction programme for elected members following the next elections, individual members will take ownership for completing the plans and identifying areas where they wish to see more development opportunities.</li> </ul>	
<p>8. The council should continue to build on positive elements of community empowerment. It should look to increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress (paragraphs 113-117).</p> <ul style="list-style-type: none"> <li>▶ The Council's work with NESTA on the Listen and Learn programme highlighted the value of working together with communities. A neighbourhood services co-design project was brought together to shape and test new ways of working in partnership with communities.</li> <li>▶ The Council's business transformation programme has established a workstream concerned with a Place Based Solutions Board, looking at the development of a Hub and Spoke model. Its intentions are to form a more joined-up, collaborative, and participative approach to services, land and buildings, across all sectors within a place, enables better outcomes for everyone and increased opportunities for people and communities to shape their own lives.</li> <li>▶ In addition, the Council and Midlothian's community and third sector organisations updated their compact agreement in October 2020. This outlines the principles they will work to: <ul style="list-style-type: none"> <li>• Togetherness</li> <li>• Respect</li> <li>• Accountability</li> <li>• Creativity</li> <li>• Kindness</li> </ul> </li> <li>▶ These form the TRACK values and aim to ensure that the relationships between partners develop and evolve in ways which ensure the best outcomes for local communities, yet fostering respect, accountability and challenge. The Council and its partners have set out plans to evaluate the impact of the compact, including evaluation of specific cross-sector events and training activities, case studies of good practice and impact, collective impact of joint working, finances attracted, efficiencies created and outcomes improved.</li> </ul>	

### Future best value audit work

In our Annual Audit Plan for 2020/21 we reported that our Best Value work for the year was to be agreed with Audit Scotland in April. The areas of focus subsequently agreed and reported in our finalised plan are highlighted below. This included some areas which had been deferred from 2019/20 as reported last year to allow management to focus on key operational priorities during the lockdown and recovery period, and allowed our audit to prioritise the financial statements audit requirements to ensure we were flexible and pragmatic in the current circumstances.

We outline previously the sources from which our conclusion around the Best Value arrangements at the Council this year are formed. Below is an updated summary of our Best Value work delivered to date over the initial five years of our appointment.

Five year Best Value Audit Coverage						
	16/17	17/18	18/19	19/20	20/21	21/22
Vision and Leadership						
Sound Governance and Accountability						
Effective Use of Resources						
Partnership and collaborative working						
Community responsiveness						
Sustainability						
Fairness and equality						
Performance outcomes and improvement						

Following the extension of our appointment by Audit Scotland to include the 2021/22 financial year audit, we will engage in discussions with management and Audit Scotland to agree the planned schedule of work for the 2021/22 audit, which we will report to the Council's Audit Committee in March 2022. This will be designed to ensure we complete any outstanding areas of Best Value focus not yet completed during our appointment period, including any deferred from 2019/20 and not subsequently reviewed this year. It will also be designed to address those areas of focus most relevant to the Council, particularly as it turns its attention to its new corporate and medium term financial planning arrangements.



# Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

D - Action plan, including follow up of prior year recommendations

E - Adjusted errors identified during the audit

F - Timing and deliverables of the audit

# Appendix A: Code of Audit Practice Responsibilities

## Audited Body's Responsibilities

### Corporate Governance

Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including audit, risk and governance committees or equivalent) in monitoring these arrangements.

### Financial Statements and related reports

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- ▶ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation.
- ▶ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and support their financial statements and related reports disclosures.
- ▶ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority.
- ▶ maintaining proper accounting records.
- ▶ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer-term financial sustainability of the body.
- ▶ Management, with the oversight of those charged with governance, should communicate clearly and concisely relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

### Standards of conduct / prevention and detection of fraud and error

Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:

- ▶ such financial monitoring and reporting arrangements as may be specified
- ▶ compliance with any statutory financial requirements and achievement of financial targets
- ▶ balances and reserves, including strategies about levels and their future use
- ▶ how they plan to deal with uncertainty in the medium and longer term
- ▶ the impact of planned future policies and foreseeable developments on their financial position.

### Best Value

Local authority bodies have a statutory duty, under the Local Government (Scotland) Act 1973 and associated statutory guidance, to make arrangements to secure best value through the continuous improvement in the performance of their functions.



# Appendix B: Independence and audit quality

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

Matters that we are required to communicate	<p>The FRC Ethical Standard requires that we provide details of all relationships between Ernst &amp; Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.</p> <p>There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.</p>
---	--

Confirmations	<p>We are not aware of any inconsistencies between the Council’s policy for the supply of non audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy.</p> <p>We confirm that, in our professional judgment, Ernst &amp; Young is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.</p> <p>We confirm that your engagement team (partners, senior managers and managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.</p>
---------------	---

Audit Fees		2020/21	2019/20
	Component of fee:		
	Total agreed auditor remuneration	£148,890	£144,550
	Additional audit procedures (see below)	£27,300	£45,110
	Audit Scotland fixed charges:		
	Pooled costs	£14,160	£14,140
	Performance audit and best value	£66,860	£64,560
	Audit support costs	£8,190	£8,740
	<b>Total fee</b>	<b>£TBD</b>	<b>£277,100</b>

The expected fee for each body, set by Audit Scotland, assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year.

Through the 2020/21 audit cycle we have discussed with management areas of the audit which required additional work beyond that usually expected for the Council. These areas related to the audit of the Treasury Management (£14,800) as part of our wider scope procedures, the audit of the Council’s Covid-19 grant income accounting arrangements (£4,900), and the additional costs related to undertaking the audit fully remotely (£5,700) in 2020/21 due to the impact of Covid-19, together with additional PFI specialist involvement in relation to the Millerhill financial model (£1,900). For these areas we have agreed the fee noted in the table above with management and Audit Scotland, based on the additional time required at the contracted Audit Scotland rates.



Matters that we are required to communicate

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

The EY 2020 UK Transparency Report can be accessed on our website at [https://www.ey.com/en\\_uk/who-we-are/transparency-report-2020](https://www.ey.com/en_uk/who-we-are/transparency-report-2020). This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our Audit Quality Report.

The disclosures are extensive. For example, they explain our outlook and how we are structured and governed, including the role of our Independent Non-Executives and how we apply the requirements of the UK's Audit Firm Governance Code. We refer to the quality of our audits and our commitment to recruiting, developing and diversifying our people and talent pool. We also explain how we manage our risks and remain innovative and technologically advanced in what we do and how we do it.

Maintaining high audit quality across all of our engagements is of paramount importance to us. Our transformational Audit Quality Programme continues and is a part of the global EY Sustainable Audit Quality Programme (SAQ).

Our Audit Quality Board (AQB) continues to oversee all matters relating to audit quality and sets the agenda for the Audit Quality programme. The AQB meets monthly and also holds an annual strategy session. The AQB reports to the EY UK Board. The AQB receives regular updates on regulatory matters, results of internal and external reviews, results of root cause analysis, resourcing, the SAQ programme and pursuit approvals, as well as a comprehensive dashboard on quality measures.

Our Audit Quality Support Team (AQST), which started within the SAQ programme, reviews 40 to 50 audits each audit cycle providing challenge and guidance to the engagement teams. These are in-depth reviews carried out by experienced auditors independent of the audit team. AQST reviews enhance the quality of both the audit under review and other audits on which team members apply the lessons learned. The AQST has now become a business-as-usual function.

Audit Quality Framework / Annual Audit Quality Report

Audit Scotland's Appointments and Assurance Team are responsible for applying the new Audit Quality Framework across all financial audits and performance and Best Value audits. This covers the quality of audit work undertaken by Audit Scotland staff and appointed firms. The team are independent of audit delivery and provide assurance on audit quality to the Auditor General and the Accounts Commission.

We support Audit Scotland in their commitment to reporting on audit quality through responding to requests for information and providing the results of internal quality reviews undertaken in respect of relevant public sector audits in Scotland.

The most recent audit quality report which covers our work at the Council since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-202021>

# Appendix C: Required communications

Required communication	Our reporting to you
<b>Terms of engagement / Our responsibilities</b> Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter – audit to be undertaken in accordance with the Code of Audit Practice
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Annual Audit Plan
<b>Significant findings from the audit</b> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Annual Audit Plan Annual Audit Report
<b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Annual Audit Report
<b>Misstatements</b> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Annual Audit Report
<b>Fraud</b> <ul style="list-style-type: none"> <li>▶ Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Annual Audit Report

Required communication	Our reporting to you
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	<p>No significant matters have been identified.</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report - Appendix B</p>
<p><b>Internal controls</b></p> <p>Significant deficiencies in internal controls identified during the audit</p>	<p>This Annual Audit Report - no significant deficiencies reported</p>
<p><b>Subsequent events</b></p> <p>Where appropriate, asking the audit, risk and governance committee whether any subsequent events have occurred that might affect the financial statements.</p>	<p>We have asked management and those charged with governance. We have no matters to report.</p>
<p><b>Material inconsistencies</b></p> <p>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</p>	<p>This Annual Audit Report</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of</li> </ul>	<p>Annual Audit Report or as occurring if material.</p>
<p><b>Group audits</b></p> <ul style="list-style-type: none"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components</li> <li>▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements</li> </ul>	<p>Annual Audit Plan</p> <p>This Annual Audit Report</p>

# Appendix D: Action Plan

We include an action plan to summarise specific recommendations included elsewhere within this Annual Audit Report. We grade these findings according to our consideration of their priority for the Council or management to action.

## New recommendations

### Classification of recommendations

**Grade 1:** Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
1	The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty.	<p>The completion in 2020/21 of the revaluation of the major aspects of the Council's assets, would be an opportunity for the Council to consider its approach going forward as a matter of good practice. This review may include:</p> <ul style="list-style-type: none"> <li>▶ Reducing the time between full valuations for all major individual asset classes;</li> <li>▶ Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations; and</li> <li>▶ Ensuring up-to-date condition surveys are in place for all assets.</li> </ul> <p style="text-align: right;"><i>Grade 2</i></p>	<p><b>Response:</b> Accepted. A review of the asset valuation arrangements will be undertaken in preparation for the 2021/22 year end. Changes arising will be reflected in the formal engagement with the internal valuation team and in the final accounts project plan.</p> <p><b>Responsible officer:</b> Chief Officer, Corporate Solutions</p> <p><b>Implementation date:</b> 31 March 2022</p>
2	We noted there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement.	<p>While the Annual Governance Statement is in line with current requirements, there is an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p><b>Response:</b> Accepted. In preparation for the 2021/22 Annual Governance Statement a review of the structure will be undertaken and changes reflected in the draft Annual Governance Statement for 2021/22</p> <p><b>Responsible officer:</b> Chief Internal Auditor/Legal Services Manager</p> <p><b>Implementation date:</b> May 2022</p>

## Classification of recommendations

Classification of recommendations			
	<b>Grade 1:</b> Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	<b>Grade 2:</b> Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	<b>Grade 3:</b> Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
3	We note that the role and membership of the Audit Committee should be considered by the new Council, following local government elections in May 2022. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value.	The Council should review audit committee arrangements post-election to ensure that governance arrangements reflect the political and strategic environment.  Grade 2	<b>Response:</b> Accepted. The review will form part of the review of Standing Orders and the Scheme of Delegation in preparation for the next term of Council.  <b>Responsible officer:</b> Executive Director Place  <b>Implementation date:</b> May 2022
4	Quarterly and annual performance reports presented to Cabinet and Performance, Review and Scrutiny Committee are heavily narrative based.  Council officers have been exploring alternative formats for presenting data including the introduction of graphics such as charts, trend analysis however Committee reports, which are also publicly available, continue to contain significant narrative analysis.	Officers should work with members to ensure performance reports are presented in a manner which supports effective challenge and scrutiny, including through the use of more graphical presentations.  Grade 3	<b>Response:</b> Accepted. Work is underway to progress dashboards which will supplement quarterly reporting data currently available to elected members via 'Pentana Browser'. In addition these will be publicly available ensuring more timely and accessible performance information is published on the Council's website. The intention is to introduce dashboards as part of improvements for the performance management cycle for 2022/23.  <b>Responsible officer:</b> Continuous Improvement Manager  <b>Implementation date:</b> September 2022

## Follow up of prior year recommendations

### Classification of recommendations

**Grade 1:** Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
1	<p>Our review of the valuation report provided by the Council's in house Property and Investment management team identified a number of errors and inaccuracies. To comply with best practice, it is recommended that the Council employs an external valuer on a cyclical basis to review valuations performed by the in-house team.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>As part of a de-brief on 2018/19 year end processes the Council will consider options to enhance management review activity in respect of asset valuations.</p> <p>Responsible officer: <b>Head of Finance &amp; ISS</b></p> <p>Implementation date: <b>31 March 2020</b></p>	<p>While we noted one error in relation to a calculation of a valuation, we continue to note improvements in the quality of working papers and responses to audit queries.</p> <p><b>Our assessment:</b> <b>Complete</b></p>
2	<p>Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis. The Council must continue to develop a balanced MTFP in the medium to long term.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Agreed, Officers continue to support BTSG to recommend measures to council to achieve a balance MTFS.</p> <p>Responsible officer: <b>BTSG</b></p> <p>Implementation date: <b>11 February 2020</b></p>	<p>While plans are in place for the 2021/22 and 2022/23 budgets, the Council is relying on one-off measures. Significant work is required to develop a revised MTFS for the next administration.</p> <p><b>Our assessment:</b> <b>Ongoing</b></p>



## Follow up of prior year recommendations

### Classification of recommendations

**Grade 1:** Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.

**Grade 2:** Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.

**Grade 3:** Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
3	<p>The Council continues to experience timing and data accuracy issues in relation to feeder financial information systems</p> <p>The Council must ensure that services apply greater rigour to feeder financial systems to support improved reporting.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed. As part of the review of the 2018/19 year end an issue and lessons learnt report is being prepared which will set out recommendations for future improvement required for 2019/20 year end.</p> <p>Responsible officer: <b>Head of Finance &amp; ISS</b></p> <p>Implementation date: <b>31 March 2020</b></p>	<p>Within Financial Management, we noted that the level of variation in financial monitoring reports noted in prior years did not occur, signalling improved financial forecasting and control.</p> <p><b>Our assessment: Ongoing</b></p>
4	<p>The Best Value Assurance Report highlighted that there is scope to be clearer about priority indicators and targets to track the Council's performance. The Council should ensure that performance reporting arrangements support elected member scrutiny.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Responsible officer: <b>Quality &amp; Scrutiny Manager</b></p> <p>Implementation date: <b>31 March 2020</b></p>	<p>While significant improvements have been made to the Council's performance reporting capability, we note within the Value for Money section that there is scope to refine key performance measures and targets.</p> <p><b>Our assessment: Ongoing</b></p>

# Appendix E: Adjusted errors identified during the audit

This appendix sets out the significant adjustments processed as part of finalisation of the financial statements. There were two unadjusted audit differences identified above our reporting threshold.

Adjusted differences			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's
1	<i>Accumulated Absences Accrual - correction of formula used to calculate accrual.</i>	Dr Expenditure 596	Cr Creditors 596
2	<i>Millerhill Residual Waste (PPP) - recognition of updated model.</i>	Cr Depreciation 115	Dr PPP Liability 598 Cr Cash 483

Unadjusted differences			
No.	Description	Income and Expenditure Impact / £000's	Balance Sheet Impact / £000's
1	<i>Burnbrae Early Years Facility - error in the calculation of the valuation</i>	Dr Surplus on Revaluation of PPE 424	Cr PPE - Buildings 424
2	<i>Reclassification of Credit Balances within Debtors</i>		Dr Debtors 353 Cr Creditors 353

# Appendix F: Timing and deliverables of the audit

We delivered our audit in accordance with the timeline set by the Council, in accordance with the annual audit planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2020/21 audit cycle, including the remaining areas of work with completion deadlines subsequent to this report.

	Audit Activity	Deliverable	Timing
JAN			
FEB	<ul style="list-style-type: none"> <li>Onsite fieldwork, documentation and walkthrough of key accounting processes</li> <li>Scoping of wider scope work for year</li> </ul>	Annual Audit Plan	Finalised and submitted to Audit Scotland April 2021
MAR			
APR	<ul style="list-style-type: none"> <li>Review of current issues impacting the Council</li> <li>Review of reported frauds</li> </ul>	Quarterly current issue return submission Quarterly fraud return submission	Quarterly throughout the audit cycle
MAY	<ul style="list-style-type: none"> <li>Education Maintenance Allowance (EMA) grant claim testing</li> </ul>	Certified EMA return	Submitted to Audit Scotland July 2021
JUN	<ul style="list-style-type: none"> <li>Submit minimum dataset return to Audit Scotland</li> </ul>	Return for financial overview	Submitted to Audit Scotland September 2021
JUL			
AUG	<ul style="list-style-type: none"> <li>Year-end substantive audit fieldwork on unaudited financial statements</li> <li>Conclude on results of audit procedures</li> <li>Issue opinion on the Council's financial statements</li> </ul>	Whole of Government Accounts assurance statement to NAO (as required) Certify Annual Financial Statements Issue Annual Audit Report Submit minimum dataset return to Audit Scotland	<i>[Financial statements audit and annual audit report on course for submission September 2021.]</i> WGA guidance and further minimum dataset return requests awaited.
SEP			
OCT			
NOV	<ul style="list-style-type: none"> <li>Completion of Non-Domestic Rates return testing</li> </ul>	Certified Non-Domestic Rates return	On course for completion October 2021
DEC	<ul style="list-style-type: none"> <li>Completion of Housing Benefits claim testing</li> </ul>	Certified Housing Benefit subsidy claim	On course for completion January 2022

#### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](https://ey.com).

#### Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

© 2021 Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

[ey.com](https://ey.com)

**Annual Accounts for the year ended 31 March 2021**

**Report by Gary Fairley, Chief Officer Corporate Solutions**

**Report for Decision**

**1 Recommendation**

Audit Committee is recommended to approve the 2020/21 audited accounts for signature in light of the appointed auditor's report for 2020/21.

**2 Purpose of Report/Executive Summary**

The purpose of this report is to present the Council's audited Financial Statements for 2020/21 to Audit Committee and to provide a brief overview of findings during the audit process.

21st September 2021.

**Report Contact:**

**David Gladwin Tel No 0131 271 3113**

**E mail [david.gladwin@midlothian.gov.uk](mailto:david.gladwin@midlothian.gov.uk)**

### 3 Background

Council submitted its unaudited annual accounts to the external auditor by the required date of 30<sup>th</sup> June 2021 and they were examined in detail at Audit Committee on Tuesday 17<sup>th</sup> August 2021.

#### 3.1 Regulations

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

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

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

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

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

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

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

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

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

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

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

Accordingly the accounts are presented to Audit Committee today as required by the regulations alongside the Annual Report to Members and the Controller of Audit – year ended 31 March 2021 prepared by the appointed external auditor, Ernst & Young LLP.

The external auditors report will also be presented to Council on Tuesday 16<sup>th</sup> November 2021 and a copy of the audited accounts will be provided to all members of Council.

### **3.2 Audit findings**

EY have issued an unqualified audit opinion on the 2020/21 financial statements for the Council and its Group alongside some very positive comments on the high quality of the financial statements and associated working papers.

Two changes to the unaudited accounts have been made. As highlighted to Audit Committee on 17<sup>th</sup> August in the covering report for the unaudited accounts work was ongoing involving Midlothian Council, the City of Edinburgh Council and respective auditors on the accounting treatment of the Millerhill Residual waste plant. Focus of discussion centred on accounting treatment in the PPP model of the capital contribution made to the project. Consensus has been reached with updated accounting entries. Whilst the adjustment made to the accounts presented today is below materiality thresholds thus not necessarily requiring an adjustment it was felt beneficial to reach a fully accurate closing position for 2020/21 which in turn becomes the 2021/22 opening position. The second change related to a calculation error in charges to the Comprehensive Income and Expenditure Account for accumulated absences.

The combined impact of changes described above is reduction of £0.481 million in Net Assets. These adjustments have no impact on the financial outturn for the year or the useable reserves at 31st March 2021 as reported to Council on 29<sup>th</sup> June 2021.

There are also two unadjusted audit differences. The first relates to a small calculation error in the carrying value in the balance sheet for Burnbrae Early Years Centre. The second is a minor re-classification of account code balances between Debtors and Creditors.

### **3.3 Management Commentary, Annual Governance Statement and Disclosures**

As indicated by EY the unaudited financial statements were prepared to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, the finance team worked with EY to make amendments and enhancements to the presentation of the financial statements.

In addition enhancements were made to both the Management Commentary and the Annual Governance Statement.

## **4 Report Implications (Resource, Digital and Risk)**

### **4.1 Resource**

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

### **4.2 Digital**

There are no digital issues arising directly from this report.



**4.3 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.

**4.4 Ensuring Equalities**

There are no equality implications arising directly from this report.

**4.5 Additional Report Implications**

**See Appendix A**

## APPENDIX A – Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

The financial statements set out the utilisation of resources committed to support the delivery of the key priorities in the single Midlothian Plan.

### 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

No consultation was required.

### A.6 Impact on Performance and Outcomes

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

### 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.

## Appendix – Draft Audited Annual Accounts 2020/21





Vogrie Country Park

# MIDLOTHIAN COUNCIL AUDITED ANNUAL ACCOUNTS 2020/21

## Table of Contents

Management Commentary.....	4
About Midlothian Council .....	4
Key Priorities and Objectives .....	5
Key Achievements and Highlights for 2020/21.....	6
Financial Performance for 2020/21 .....	7
Risks and Uncertainties Facing the Council .....	12
How the Council Manages Risk.....	14
Looking Ahead .....	14
Conclusion.....	15
Acknowledgments .....	16
Statement of Responsibilities .....	17
Annual Governance Statement.....	18
Introduction .....	18
Scope of Responsibility .....	18
Framework for Good Governance .....	18
The Council's Governance Framework .....	19
Review of Adequacy and Effectiveness of the Council's Governance Framework.....	22
Improvement Areas of Governance .....	22
Conclusion and Opinion on Assurance .....	24
Remuneration Report .....	25
Introduction .....	25
Remuneration of Councillors .....	25
Remuneration of Employees .....	26
Pension Benefits .....	27
Remuneration of Other Employees by Pay Bands .....	29
Exit Packages.....	30
Trade Union Facility Time .....	30
Independent Auditor's Report.....	32
Principal Financial Statements.....	36
Group and Council Comprehensive Income and Expenditure Statement.....	37
Group and Council Movement in Reserves Statement.....	38
Group and Council Balance Sheet.....	39
Group and Council Cash Flow Statement .....	40
Expenditure and Funding Analysis.....	41
Notes to the Accounts .....	42

1.	Accounting Policies .....	43
2.	Accounting Standards Issued, Not Yet Adopted .....	56
3.	Critical Judgements in Applying Accounting Policies .....	56
4.	Future Assumptions and Estimation Uncertainties .....	57
5.	Events after the Reporting Period.....	60
6.	Note to the Expenditure and Funding Analysis.....	61
7.	Adjustments between Accounting Basis and Funding Basis under Regulations.....	63
8.	Movement in Earmarked Reserves .....	65
9.	Other Operating Income and Expenditure.....	65
10.	Financing and Investment Income and Expenditure.....	65
11.	Taxation and Non-Specific Grant Income .....	65
12.	Group and Council Expenditure and Income Analysed by Nature.....	66
13.	Property, Plant and Equipment.....	67
14.	Heritage Assets.....	70
15.	Intangible Assets .....	70
16.	Long-Term Debtors .....	71
17.	Financial Instruments.....	71
18.	Nature and Extent of Risks Arising from Financial Instruments.....	75
19.	Assets Held for Sale.....	79
20.	Inventories .....	80
21.	Short-Term Debtors .....	80
22.	Cash and Cash Equivalents.....	80
23.	Creditors.....	80
24.	Provisions .....	81
25.	Usable Reserves .....	81
26.	Unusable Reserves .....	81
27.	Grant Income .....	84
28.	Capital Grants Received in Advance.....	85
29.	External Audit Costs .....	85
30.	Related Parties .....	86
31.	Capital Expenditure and Capital Financing.....	87
32.	Public Private Partnership (PPP) and Similar Contracts .....	87
33.	Pension Schemes Accounted for as Defined Contribution Schemes .....	90
34.	Defined Benefit Pension Schemes .....	90
35.	Contingent Liabilities.....	94
36.	Contingent Assets .....	94

---

37.	Agency Covid Business Grants .....	95
38.	Trusts, Bequests, Common Good and Community Funds .....	95
39.	Notes to the Group Accounts.....	95
	Housing Revenue Account.....	98
	Council Tax Income Account.....	100
	Non-Domestic Rate Account.....	102
	Glossary of Terms .....	103



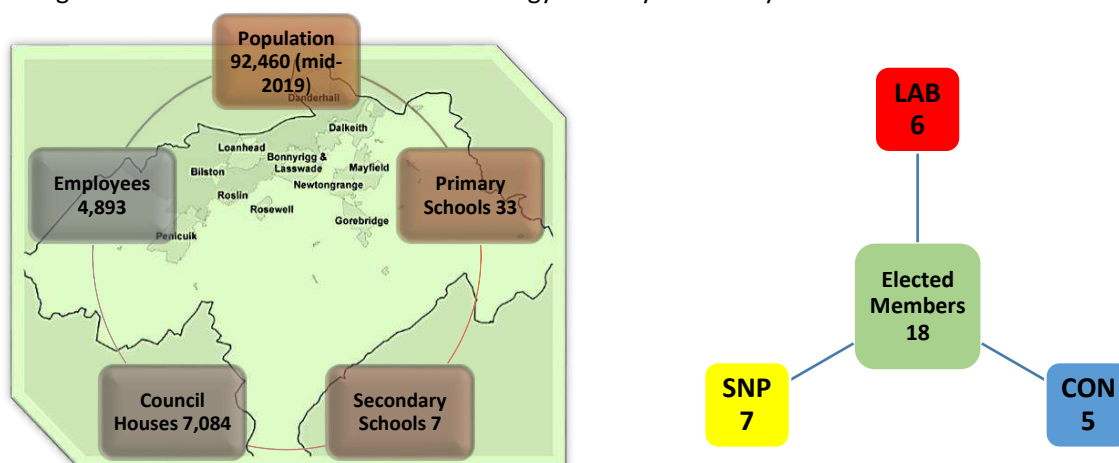
## Management Commentary

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.

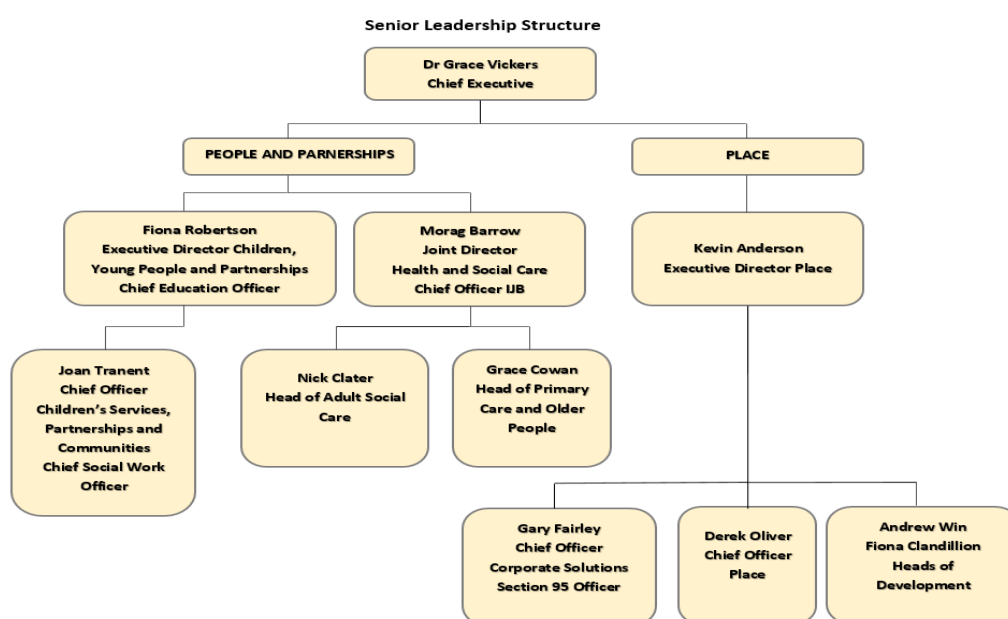
The Annual Accounts present the financial position and performance of the Council demonstrating the stewardship of public funds that support the Council's vision and key priorities. The format and content of the Annual Accounts are prepared in accordance with the *Code of Practice on Local Authority 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 Biotechnology industry. Some key facts about Midlothian are:



### Council Service Structure



## Key Priorities and Objectives

Midlothian Council's vision and priorities are set out in the [Single Midlothian Plan 2021](#) (SMP). These priorities are delivered through the Community Planning Partnership (CPP) which sets out how we work with communities and partners to deliver our vision, which is based on two key principles of 'People' and 'Place'. The principles aim to improve quality of life for everyone and safeguard the resources we have today for future generations and is encapsulated in the following vision statement ***"Midlothian – A Great Place to Grow"***.

The Council outlines its key objectives and associated performance indicators in annual service plans formally approved each year. These plans primarily relate to the Council's core, and often, statutory duties, which are mainly the responsibility of the local authority rather than the wider CPP.

The top priorities in the SMP for 2020/21 were as follows:

- Reduce the economic circumstances gap;
- Reduce the gap in learning outcomes;
- Reduce the gap in health outcomes; and
- Reduce Midlothian carbon emissions to net zero by 2030.

The SMP incorporates five overarching thematic groups, which support the achievement of outcomes. Quarterly public performance reporting reflects this thematic approach and the chart below demonstrates this:



The Medium Term Financial Strategy (MTFS) was approved by Council in June 2019. The public consultation visionary exercise supporting development of the MTFS highlighted the following key priorities for what Midlothian should be like in 2040:

- **A sense of belonging** – Pride in communities, working in partnership, transparency in decision making and accessibility in service provision;

- **A balanced infrastructure** – Manageable housing numbers, vibrant towns, protected green spaces, a clean carbon neutral environment and improved community transport;
- **Learning and working together** – High quality education and training, jobs close to where people live, a main provider of local food production, maximising technical solutions;
- **Integrational opportunities** – Reimagined older peoples services, being able to grow old in the one community, with support and good access to health and social care.

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 2020/21 can be found on the Council's website [Balanced Scorecard 2020/21](#).

At Council in June 2019 the adoption of a Service Dominant Logic was approved which means that we will place our citizens and communities at the heart of our daily work. Also approved at Council in June 2019 were the key drivers for change as presented below.



## Key Achievements and Highlights for 2020/21

Achievement	Commentary
<b>Public Sector Transformation Award - Response to COVID-19</b>	The Council was awarded the Improvement and Efficiency Social Enterprise (IESE) Certificate of Excellence Award to mark significant innovations in improving local public services for its #kindnessmidlothian campaign which was launched at the beginning of the pandemic back in March 2020. This was a collective effort across the Community Planning Partnership to support Midlothian's communities through this difficult time.
<b>Public Sector Transformation Award – Climate Change</b>	The Council was also awarded the IESE Certificate of Excellence Award to mark significant innovations in improving local public services for Midlothian's Climate Change approaches which include all of the work the Council is doing towards its goal of being carbon neutral by 2030.
<b>Easter Bush Agritech Hub Business Case Approval</b>	The City Deal Joint Committee approved the business case to allow for a world-leading centre in agritech based in Midlothian at Easter Bush to progress. This £74 million capital investment programme will deliver many more jobs for local people and a sustainable transport corridor so it will also help with Midlothian's Carbon Neutral by 2030 ambition. This will also put Midlothian on the world map with the hosting of world-leading applied researchers and projects forecasted to deliver another £116 million over a 15 year period and a gross value added direct economic benefit of up to £437 million - of which £250 million will directly benefit the City Region.

Achievement	Commentary
<b>Funding Secured for Employability Programmes</b>	Over £1.5 million funding has been secured for employability programmes including Foundation Apprenticeships, No One Left Behind, Modern Apprenticeships, third sector Kickstart partnership, Parental Employability Support and the Young Persons Guarantee.
<b>Carriageway and Footway Renewal/Improvement Scheme</b>	The capital roads programme commenced at the end of June 2020, following easing of Covid-19 restrictions. 16 of 25 individual carriageway schemes was completed equating to 3.71 km of carriageway resurfacing, and 6 of 19 individual footway schemes was completed equating to 2.7 km of footway resurfacing.
<b>Provision of Affordable Housing</b>	The Council's Strategic Housing Investment Programme (SHIP) was submitted to the Scottish Government in December 2020. To address the need for affordable housing the SHIP details potential sites for 2,602 new affordable homes to be built during 2021-26. During 2020/21 119 new Council Houses were completed, this brings the total completed to 1,310 over the past 14 years. In addition, 14 properties were purchased during the year to add to the overall housing stock with an increase of a further 32 due to repurposing of properties to create additional temporary accommodation.

## Financial Performance for 2020/21

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 2020/21. Full details of the Council's financial performance was reported to Council on 29 June 21 and is available on the [Council's website](#).

### Useable Reserves

The Council holds funds in a number of Usable 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 38:

Useable Reserve	Purpose	2020/21 £000	2019/20 £000
General Fund Non-Earmarked Reserve	Funds held as a general contingency.	3,812	4,048
General Fund Earmarked Reserve	Funds held for specific purposes ( <i>see note 8</i> ).	25,860	9,380
Housing Revenue Account	Funds held for investment in the Council's housing stock.	48,385	44,395
Capital Fund	Funds set aside for major capital developments or asset purchases.	24,158	25,364
Repairs and Renewals Fund	Funds held for specific types of repairs and maintenance work.	3,897	3,670

### General Fund Performance

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules provide otherwise. Government Grants, Council Tax Income, fees and charges, Non-Domestic Rate Income (subject to pooling arrangements) and interest / returns on investments provide resources for the General Fund. The General Fund is split between uncommitted balances (the level of funding available to the Council to manage financial risks and unplanned expenditure) and balances that are earmarked for specific purposes.

The Comprehensive Income and Expenditure Statement (CIES) on page 37 sets out the Council's funding and spending in accordance with accounting requirements which is different to the way we report

performance in the year. The Expenditure and Funding Analysis (EFA) on page 41 provides a link between the budget management reports, reported within the year and the figures in the CIES.

The table below shows actual outturns against budget for each of the Council's General Fund Service areas as well as a reconciliation to assist users of the Accounts to navigate from the Midlothian Council Budget Monitoring position to the first column in the Expenditure and Funding Analysis (EFA).

Budget Monitoring 2020/21				Building the EFA		
Service Area	Revised Budget	Net Expenditure	(Under)/Overspend	Budget Monitoring Net Expenditure	Adjustments for Internal Reporting Purposes	Net Expenditure Chargeable to the General Fund and HRA Balances
Management and Members	1,947	1,921	(26)	1,921	41	1,962
Children's Services, Partnerships & Communities	19,722	19,774	52	19,774	0	19,774
Education	98,009	98,009	0	98,009	(9,585)	88,424
Adult Health & Social Care	4,605	4,353	(252)	4,353	0	4,353
Midlothian Integrated Joint Board	44,985	44,985	0	44,985	0	44,985
Place	33,850	34,168	318	34,168	(4,094)	30,074
Corporate Solutions	21,406	21,067	(339)	21,067	(7,330)	13,737
Housing Revenue Account	0	0	0	0	(17,747)	(17,747)
Joint Boards	572	567	(5)	567	0	567
Central Costs	7	65	58	65	0	65
Non-Distributable Costs	1,408	1,352	(56)	1,352	0	1,352
Loan Charges	5,296	4,869	(427)	4,869	22,426	27,295
NDR- Discretionary Relief	70	70	0	70	(70)	0
Investment Income	(36)	(34)	2	(34)	34	0
Allocations to HRA, Capital Account, etc.	(5,140)	(5,150)	(10)	(5,150)	5,150	0
<b>Net General Fund Expenditure</b>	<b>226,701</b>	<b>226,016</b>	<b>(685)</b>	<b>226,016</b>	<b>(11,175)</b>	<b>214,841</b>
<b>Less Funding:</b>						
Scottish Government Grant	185,845	185,845	0	185,845	(70)	185,775
Council Tax Income	54,477	54,558	81	54,558	(5,257)	49,301
<b>Total Funding</b>	<b>240,322</b>	<b>240,403</b>	<b>81</b>	<b>240,403</b>	<b>(5,327)</b>	<b>235,076</b>
<b>General Fund Utilisation/(Enhancement) of Reserves</b>	<b>(13,621)</b>	<b>(14,387)</b>	<b>(766)</b>	<b>(14,387)</b>	<b>(5,848)</b>	<b>(20,235)</b>

The most significant areas contributing to both adverse and favourable variances against budget in Council service areas were:

- Additional costs of £0.444 million associated with family, residential and day placements for children due to higher client numbers and extended periods of support;
- Adverse conditions over the winter months resulting in additional response costs of £0.386 million;
- Costs associated with European Union funded projects of £0.193 million that are now not eligible to be reclaimed through the grants process.

Offset by:

- Reduced running costs in some service areas of £0.995 million;

- Lower than forecast capital expenditure resulting in a reduction in related borrowing costs of £0.427 million;
- A reduction in residential respite places for children of £0.382 million.

### Covid-19

Scottish Government provided additional revenue funding to the Council in 2020/21 of £23.832 million. £9.223 million was provided as general support with a further £10.586 million provided to meet specific costs including support to individuals, families and communities and to support education recovery. £4.023 million was also received in respect of the loss of income scheme. £10.806 million of this has been carried forward to meet COVID-19 pressures in 2021/22 and beyond.

The Council administered, on an agency basis (those associated with Non Domestic Rate valuations were processed by the City of Edinburgh Council (CEC) on the Council's behalf), several COVID-19 funding streams on behalf of the Scottish Government. The total value of grants processes, mainly relating to business support, was £20.2 million of which £19.3 million was processed by CEC.

### General Fund Reserve 2020/21

The Council approved the Reserves Strategy in February 2019 setting the minimum level of uncommitted reserve of 2% of net expenditure (excluding resources delegated to the IJB), which equates to £3.634 million. In 2020/21 there was an increase of £16.244 million in the General Fund Reserve comprising an underspend of £0.766 million as detailed above, planned increase in reserves during the year of £0.003 million and budgets to be carried forward for use in 2021/22 of £23.313 million. This total increase is offset by a decrease in earmarked reserves of £7.838 million which were utilised in the year. The effect of the 2020/21 movement of £16.244 million on the General Fund Reserve balance is demonstrated in the table below with uncommitted reserves £0.178 million in excess of the approved minimum level. Further details are provided in the Movement in Reserves Statement on page 38:

2019/20		2020/21		
Total Reserves £000	General Fund Reserve	Uncommitted Reserves £000	Earmarked Reserves £000	Total Reserves £000
(8,637)	Balance Brought Forward	(4,048)	(9,380)	(13,428)
(4,791)	(Increase in)/use of balances	236	(16,480)	(16,244)
<b>(13,428)</b>	<b>General Fund Reserve Balance</b>	<b>(3,812)</b>	<b>(25,860)</b>	<b>(29,672)</b>

The movement in the Earmarked General Fund balance of £16.480 million is outlined in Note 8 on page 65, which reflects the movements attributable to Earmarked Reserves.

### Housing Revenue Account (HRA) 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. Rent paid by tenant's funds the revenue expenditure on housing management, repairs and maintenance and financing of capital expenditure. The table below provides analysis of financial performance for 2020/21:



2019/20 £000	Housing Revenue Account Balance Spend	2020/21 £000
(39,084)	Opening Balance	(44,395)
(923)	(Positive) / Adverse Variance against Budget	(1,789)
(4,388)	Planned Increase of HRA Reserve	(2,201)
<b>(44,395)</b>	<b>Closing Balance</b>	<b>(48,385)</b>

Overall, the majority of operational costs showed favourable variances at the year-end due to rephasing of the Capital Plan resulting in reduced borrowing costs for the year. The closing balance on the Housing Revenue Account reserve is £48.385 million. This is committed to fund the Council's ambitious capital investment plan, which currently runs to 2035/36, to build further new housing stock and continue to improve and upgrade its existing stock, particularly through Scottish Housing Quality Standards (SHQS) improvement works. The majority of this plan is funded through prudential borrowing with 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.

#### *Capital Expenditure 2020/21*

Capital expenditure represents 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 2020/21 the final budget for capital investment was £24.940 million (2019/20 £34.123 million), this budget was exceeded by £0.629 million mainly due to additional Digital Services capital costs in response to COVID-19. The table below identifies actual capital spend during the financial year for key projects:

2019/20 Budget £000	2019/20 Actual £000		2020/21 Budget £000	2020/21 Actual £000
		<b>General Fund Capital Spend</b>		
22,789	21,765	School Estate	10,383	10,319
0	0	Zero Waste	7,380	7,380
5,168	5,168	Roads, Pavements and Street Lighting	1,841	1,841
781	781	Fleet Replacement and Upgrades	1,495	1,495
1,198	1,198	Digital Assets	1,383	2,101
937	937	Centralised Property Upgrades	903	903
3,250	3,250	Other Capital Projects	1,555	1,530
<b>34,123</b>	<b>33,099</b>	<b>Total Spend</b>	<b>24,940</b>	<b>25,569</b>

The table below demonstrates the breakdown of the Housing Revenue Account Capital Spend for 2020/21:

2019/20 Budget £000	2019/20 Actual £000		2020/21 Budget £000	2020/21 Actual £000
		<b>Housing Capital Spend</b>		
17,024	18,690	New Social Housing	14,225	14,486
5,701	5,701	SHQS Improvement Works	866	866
878	544	Other Small Capital Projects	384	280
<b>23,603</b>	<b>24,935</b>	<b>Total Spend</b>	<b>15,475</b>	<b>15,632</b>



A combination of government grants, external funding contributions from third parties, capital receipts, Section 75 developer contributions and borrowing funded this expenditure. **Note 31** 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	2019/20	2020/21	Commentary
Capital financing requirement	£284.750m	£293.114m	Reflects the Council's underlying need to borrow to finance capital expenditure incurred historically by the Council that has yet to be financed.
Actual external borrowing	£269.077m	£274.795m	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	£15.673 m	£18.319m	This demonstrates that the Council's capital borrowing requirement has not been fully funded by loan debt and is using cash from working capital, reserves and balances to support capital programmes whilst investment returns are low.
Ratio of finance costs to net revenue stream – General Fund	2.69%	2.03%	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	36.23%	37.50%	As above.
External Loans Fund Interest Rate	3.44%	3.31%	Average rate of interest paid on external debt.
Internal Loans Fund Interest Rate	3.10%	2.95%	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 authority.

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 17 and Note 18 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 2021. 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 39 .

	31 March 21 £000	31 March 20 £000	Change £000
Long-term Assets	974,101	903,398	70,703
Current Assets	160,076	134,274	25,802
Current Liabilities	(87,361)	(91,235)	3,874
Long-term Liabilities	(510,838)	(457,864)	(52,974)
<b>Net Assets</b>	<b>535,978</b>	<b>488,573</b>	<b>47,405</b>

Movements in the net assets of the Council are attributed to:

- Long-term Assets – Asset growth of £32.022 million as well as gross upwards movement in asset values of £44.785 million flowing from valuation work undertaken during 2020/21, this is offset by movement in depreciation and other downwards movements of £6.104 million;
- Current Assets and Long-term liabilities – Long Term Public Works Loans Board borrowing, taking advantage of historically low interest rates and recognising the Council's current under borrowed position, was undertaken during 2020/21. This is reflected in the Balance Sheet at 31 March 21 with increased long-term liabilities sitting alongside higher short term and liquid investments.

### *Pension*

The impact of the Local Government Pension Scheme and Scottish Teachers Superannuation Scheme on the Council's accounts has been disclosed in **Notes 33 and 34** to the accounts. As at 31 March 2021, the Council's share of the Lothian Pension Fund showed a net pension liability of £141.030 million (2019/20 £97.719 million). This figure represents the amounts that the actuary estimates at 31 March 21 that the Council will have to pay out in future years for all pension entitlements earned by current and previous staff which exceeds the assets held by the fund. This is an increase of £43.311 million from 31 March 2020. In the period to the accounting date investment returns have been significantly greater than expected (compared to last year's discount rate assumption). Counter to this, the real discount rate for obligations (discount rate net of inflation) has fallen compared to the previous year's accounting date. This is due to the combination of a lower discount assumption and a significantly higher CPI assumption. The Council continues to monitor and measure this pension liability and make changes to cash contributions as required as part of the regular assessment made by an independent actuary. The 2020 triennial actuarial valuation, on which the funding of the pension fund is determined, shows an increase in the overall funding position to 104% (99% in 2017). This indicates that based on current assumptions and projections all future pension costs can be met.

## Risks and Uncertainties Facing the Council

### *COVID-19 Pandemic Recovery*

The impact of the Covid-19 outbreak brings risk and uncertainty globally. Currently, predicting the impact for the national and local economy is extremely uncertain. A relevant local assessment is to be found in 'State of the Economy: September 2020' published by the Chief Economist to the Scottish Government on 29 September 2020. This report summarises recent developments in the global, UK and Scottish economies and provides an analysis of the performance of, and outlook for, the Scottish economy. It quotes:

*'The Scottish economy has seen a record fall in output during the first half of 2020 during the national lockdown and, supported by unprecedented levels of fiscal and monetary stimulus over this period, we have seen the economy stabilise and start to recover as restrictions have eased.'*

*However, the ongoing need to manage the spread of coronavirus and what that might mean for the economic and social activity remains a central theme of uncertainty and risk to the economic outlook, alongside the changing scale and nature of fiscal support, and the pace at which businesses and households (domestically and internationally) can return to pre-pandemic levels of economic activity'*

The full document can be found at: <https://www.gov.scot/publications/state-economy/>

The Covid-19 pandemic has brought unprecedented financial pressure on the Council, which has faced significant additional costs and lost income as a result of the curtailment of social and economic activity due to Scotland's efforts to contain the spread of the virus.

In order to help Scottish Councils cope with the additional financial pressures Scottish Government have made available significant grant support for 2020/21 and 2021/22 to provide general financial assistance, as well as a large number of funding streams to target particular policy areas.

Whilst the additional funding is welcome the full range of financial impacts for 2021/22 and beyond, are not yet fully apparent at this stage as the exact terms of the country's emergence from the current restrictions and the re-establishment of patterns of social and economic activity remain unclear.

### *Financial Pressures on Revenue and Capital Resources*

Like all local authorities Midlothian Council is facing a period of unprecedented change with many factors affecting the need to adapt as an organisation. These pressures are only likely to increase as it reacts to future challenges, not least those which have been demonstrated so dramatically by the ongoing Covid-19 pandemic. Some of the challenges the Council face include:

- Continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care and the significant population growth in Midlothian. These pressures continue and present a considerable challenge to the Council in both financing them and transforming services to improve ways of managing some of the implications of these pressures;
- Pay inflation and Scottish Government Grant Income projections are critical areas of modelling given their overall significance and uncertainty. For 2020/21, and again for 2021/22, the Scottish Government published a one year budget and grant settlement, and as such Councils are currently unaware of the level of funding that will be available to them beyond 2021/22. There are a number of factors, which will influence the level of grant support the Council might expect for 2022/23 and beyond. 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 which will be set out in the government's budget bill expected to be presented to Parliament in December 2021;
- Requirement to maintain the physical condition of major capital assets such as roads and schools;
- Potential impact on local economy following Covid-19 pandemic over the coming years.

Whilst an assessment of economic factors can be made at this time, based on the information available from the Office of Budget Responsibility, the Scottish Fiscal Commission and Scotland's Fiscal Outlook, the Scottish Government's second medium term financial strategy and the impact of Scottish Government's

tax and spending priorities will only become apparent when the Scottish Government's 2022/23 budget is published in December 2021.

In February 2021 the Council set a budget for 2021/22 which included a council tax freeze in recognition of the unique pressures created by the pandemic and to help protect household incomes. In the context of reduced funding and growth in demand for services, the Council has a considerable challenge to ensure its future expenditure plans are sustainable. When setting the 2021/22 budget the Council adopted a corporate solution as described further in the Development of the Medium Term Financial Strategy in '*How the Council Manages Risk Section*' below and has avoided the need for any additional service cuts. A similar solution is planned to secure financial balance in 2022/23.

## How the Council Manages Risk

Action	Commentary
<b>Service Risk Registers</b>	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.
<b>The Corporate Risk Register</b>	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.
<b>Covid Response</b>	As the situation with the COVID-19 pandemic continued to evolve, Midlothian Council ensured critical services to its citizens continued to be delivered as a priority. The Council worked with the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to monitor the level of additional cost pressures and reduced income levels arising from COVID-19, which had impacted the Council's ability to ensure a balanced financial position. A Route Map through and out of the Crisis was also approved at Council on 16 June 2020 which seeks to both support recovery and to retain the best elements of transformation which took place in response to COVID-19. The Route map can be found on the Council's website <a href="#">Midlothian Council &gt; Meetings 16 June 2020</a> .
<b>Development of a Medium Term Financial Strategy</b>	The Council's Long Term financial outlook highlights significant funding pressure that the Council may face over the next few years. On 25 June 2019 Council agreed a <a href="#">Medium Term Financial Strategy (MTFS) 2020/21-2022/23</a> , which set out budget projections for 2020/21-2022/23 and has continued to be updated and reviewed during the budget setting process for <a href="#">2020/21</a> and <a href="#">2021/22</a> accordingly. The MTFS sets out cost projections for pay inflation, price inflation and the impact of demographic changes together with income projections and the impact of a range of measures designed to achieve significant progress towards addressing the projected budget gaps.

## Looking Ahead

Moving into 2021/22, although the Council anticipates some easing of the immediate Covid-19 financial impacts focus will now need to shift towards medium and long-term recovery. As well as dealing with the impact on Council services, the Council will be a key partner in helping our citizens, communities and businesses to recover from the harms that have been caused. The pandemic will have caused many as yet unseen harms, and Councils will be required to identify the anticipated impacts as quickly as possible and put in place plans of action to address them and many of those plans will require funding deployed towards that effort.

In addition to the impact of the Covid-19 pandemic, Midlothian Council also faces additional pressure with being the fastest growing local authority in Scotland, resulting in greater demand for services. The General Services Capital Plan will also see further major investment in the following areas over the coming years:

Capital Expenditure	Commentary
School Infrastructure	<ul style="list-style-type: none"> <li>• Equipped for Learning Programme;</li> <li>• Wide-ranging school building, extension and refurbishment programme;</li> <li>• A replacement of Beeslack Community High School and refurbishment of Penicuik High School</li> <li>• A new school campus proposed at Shawfair;</li> <li>• A new high school for Gorebridge;</li> <li>• Replacement schools for Mayfield Campus and Lasswade Primary.</li> </ul>
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"> <li>• Continuing investment in improved roads, footpaths and lighting across Midlothian;</li> <li>• 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.</li> </ul>
Social Housing	<ul style="list-style-type: none"> <li>• A continuation of the new build housing programme and upgrading of existing housing.</li> </ul>

The Council has recognised the need for a strategic step change in the form of the development, agreement and implementation of a Medium Term Financial Strategy, mentioned earlier, together with the proposed 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 Council Management Team and the Council as appropriate, including options on addressing any new budget and spending pressures. This may include further use of reserves, reallocation of committed reserves, changes to capital spend, opportunities available through review of the Loans Fund or other cost savings. Management is continuing to liaise with Scottish Government and COSLA on ensuring sustainable funding going forward.

The Council will continue to assess the potential impact of Brexit, 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 Great Place to Grow.

## Conclusion

2020/21 was a year of unprecedented challenges. The Council had to deal with the immediate impacts of a global pandemic as well as continued increasing demand pressures. Despite these pressures, the Council

made significant improvements across a range of areas and the Council continued to invest for the future in its asset base to provide essential infrastructure to support the growing population and it is important to appreciate these improvements.

We have concluded the year in a period of unprecedented uncertainty but with a focus on meeting the financial and service challenges identified in the Medium Term Financial Strategy to ensure the Council has continued financial sustainability.

## Acknowledgments

I would like to acknowledge the tremendous effort 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.

X

---

Gary Fairley  
Chief Officer, Corporate Solutions

---

## 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 Officer, Corporate Solutions;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- To make arrangements to approve the Annual Accounts.

X

---

Councillor Jim Muirhead  
Deputy Leader of the Council

### The Chief Officer, Corporate Solutions Responsibilities

The Chief Officer, Corporate Solutions 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 Officer, Corporate Solutions 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 2021.

X

---

Gary Fairley  
Chief Officer, Corporate Solutions



## 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 2021, 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.

Due to the Covid-19 Pandemic, on 16 March 2020 Group Leaders agreed that Standing Order 19.2 be implemented for any emergency decisions required at the start of the Pandemic. Standing Order 19.2 provides the Chief Executive, after discussion with the Leader of the Council, whom failing the Depute Leader of the Council, authority to take decisions where urgent or immediate action is required. Where such decisions are required, the Chief Executive will provide a report to the next available full Council meeting to inform the Council of these, this was in place from 24 March to 15 June 2020. Council and Committee meetings recommenced, using a virtual platform on 16 June 2020. During this period, from 24 March to 15 June 2020 the Corporate Incident Management Team met daily and the Chief Executive met weekly with the Leader and Depute Leader, the Administration and with Group Leaders. All meetings were held using the virtual platform. All 19.2 decisions taken during this period were reported to Group Leaders weekly and were also reported to the first available meeting of Council on 16 June 2020. At the start of 2021, whilst the legal requirement to stay at home except for essential purposes was in force, the Council moved to critical service delivery only. During this period the Chief Executive continued to meet regularly with the Leader and Depute Leader, and Group Leaders and whilst full Council continued to meet virtually other Committee activity was limited to critical business only.

### Scope of Responsibility

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

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

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

### Framework for Good Governance

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (Spring 2016) 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 CIPFA/SOLACE 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), has been updated during 2020/21 to reflect the changes in corporate governance during 2020/21 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 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 is provided to the Council by the Head of Adult Health and Social Care (Chief Social Work Officer). The CSWO promotes values and standards of professional practice and acts as the 'agency decision maker' taking final decisions on a range of social work matters including adoption, secure accommodation, guardianship, etc. The CSWO reports annually on the statutory work undertaken, regulation and inspection, workforce issues and significant social policy themes.

### *B. Ensuring openness and comprehensive stakeholder engagement*

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality. At the onset of the pandemic, Council meetings were suspended. Standing Order 19.2 was

implemented for any emergency decisions from 24 March to 15 June 2020. Council and Committee meetings recommenced on 16 June 2020 using a virtual platform.

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.

Asset management planning and 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.

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

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

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

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

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

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

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

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

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

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

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

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

The Council has 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.

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

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

The independent and objective audit opinion of the Chief Internal Auditor (Chief Audit Executive) is stated within the Internal Audit Annual Assurance Report 2020/21. This is based on work carried out by an in-house and shared services team in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

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

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

The Annual Accounts and Report for 2020/21, setting out the financial position in accordance with relevant accounting regulations have been completed.

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

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

The Corporate Management Team undertook a full self-evaluation of the Local Code of Corporate Governance during the year in consultation with the Internal Audit function. This included the consideration of examples of evidence such as systems, processes and documentation to demonstrate compliance with the Framework's seven core principles of good governance, supporting principles and a range of specific requirements as set out in the Local Code, which was approved by Council in March 2021.

The review was further informed by assurances from assessment of compliance against the Local Code; written assurance statements from the Executive Directors and Chief Officers/Heads of Service; 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.

## Improvement Areas of Governance

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

The Council at its meeting on 20 August 2019 approved the "Best Value Assurance Report: Midlothian Council Action Plan", following its consideration by the Corporate Management Team on 17 July 2019, to address the 8 recommendations made in order to demonstrate Best Value. A follow up Best Value Report was presented to Council in November 2020 and a further report is scheduled for June 2021.

In response to the Pandemic the Council has undergone significant transformation. In June 2020, Council approved the Midlothian Route Map. To support this strategic recovery route map the Council have been working together with Nesta and the recommendations contained in their Listen and Learn Report ([Listen and Learn](#)) were approved by Cabinet in September 2020. The Council previously worked with Nesta on the 100 day Mental Health Challenge and due to the success of that project Nesta were asked to assist with the listen and learn exercise to gather the views of staff and how they have managed through the Covid-19 emergency phase. In addition to approving the Nesta recommendations Cabinet instructed that service plans were updated to reflect these. In addition Council also approved a new Economic Renewal strategy and an accelerated Capital programme as part of the Council's commitment to supporting Economic Recovery.

During 2020/21 the Council has also developed and sustained more constructive relationships between members and between members and officers. During the Pandemic the Chief Executive met weekly with the three group leaders. The cross party Education group is also a highly effective example of cross part working. In addition, the cross-party Business Transformation Steering Group is driving forward the medium term financial strategy and the Midlothian Route Map in response to the Pandemic, and new Transformation Boards are in place to support the delivery of this work. Further action is required in respect of the remaining 4 recommendations;

1. The workforce strategy was approved by Council in December 2019. The Pandemic has resulted in significant changes to the workforce and the digital solutions now implemented. As a result workforce planning and digital by default approaches continue to be developed to support the Midlothian Route Map which includes a Remote Working Transformation Board which is chaired by the Chief Officer, Corporate Solutions. Workforce is also being addressed through the Hub and

Spoke Board in moving towards local by default service delivery and the Digital First Board in support of 21st Century ways of working.

2. The Council is continuing to implement financial planning arrangements to address budget gaps, and a balanced budget was set for 2021/22, as approved by Council in February 2021, with a Corporate Solution proposed for 2022/23.
3. Progress has been achieved with elected members in light of the recommendation to exercise appropriate scrutiny and to develop Professional Development Plans. This is also supported by Seminars and Briefings which complement Council and Committee meetings. Further work is ongoing for members to fully take ownership for personal development plans and access relevant training opportunities.
4. Reviews are progressing under the new leadership to continue to build on positive elements of community empowerment. In 2021 Midlothian was awarded the IESE Certificate of Excellence for the Kindness Midlothian Campaign which was led by the Community Planning Partnership. Development of future models for working with communities in designing and delivering services is progressing with Nesta, a social innovation foundation, as outlined in the Listen and Learn report, particularly in relation to the transformation of Neighbourhood Services.

A formal report on the progress with the Best Value action plan is scheduled to be presented to Council in June 2021.

In addition, there are other areas for improvement actions (below) that are not specifically covered by the above in order to enhance compliance with the Council's Local Code of Corporate Governance:

5. Review and update the Financial Regulations and Financial Directives and associated guidance to reflect changes arising from organisation structures and systems and embed arrangements to support regular review and updating. Review and update the Scheme of Delegation, Standing Orders and Scheme of Administration, in preparation for the term of next Council and to ensure that they remain appropriate and reflect the current management structure. A cross party Standing Orders working group is currently in place.
6. Ensure that the action taken to strengthen resource capacity and skills in the Procurement function provides the necessary support to Service Managers, strengthens compliance with the Council's procurement strategy and procedures, and further improves contract monitoring to demonstrate delivery of value for money and to consistently ensure integrity and compliance with high ethical standards expected by the Council. A Chief Procurement Officer has been appointed in order to lead transformation of this service area and took up post in September 2021.
7. Continue to refine quarterly monitoring reports for both revenue and capital to improve the robustness of scrutiny and transparency of performance against financial plans.
8. Enhance the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
9. Provide ongoing training for managers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.

10. Ensure that the Strategic Boards, supporting the work of the Business Transformation Board and the cross-party Business Transformation Steering Group secure the required outcomes at the required scale and pace.
11. Review and refresh the risk management policy and guidance and develop a consistent approach to quarterly risk review and reporting processes at service/operational level.

In addition, Health Boards and their partner local authorities have a statutory duty under the Public Bodies (Joint Working) (Scotland) Act 2014 to review the integration scheme every five years. Partners have agreed that the review of the integration scheme be delayed as a consequence of the pandemic and for the current scheme to continue until the new scheme is agreed as well as any governance issues associated with this (e.g. any expected changes that have not been able to be implemented) and the next steps and timeframe for completing this process.

## Conclusion and Opinion on Assurance

The conclusion from the review activity outlined above and our opinion is 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.

**X**

---

Councillor Jim Muirhead  
Deputy Leader of the Council

**X**

---

Dr Grace Vickers  
Chief Executive



## Remuneration Report

### Introduction

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 Ernst & Young LLP 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 2020/21 the Regulations set the salary for the Leader as £29,760 (2019/20 £29,119) and the maximum salary for the Provost as £22,320 (2019/20 £21,840).

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 2020/21, the maximum salary which could be paid to a Senior Councillor was £22,320 (2019/20 £21,840) 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 £160,696 (2019/20 £157,237). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within those maximum limits.

The Regulations also permit the Council to pay contributions or other payments as required by 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:

<b>Total Remuneration 2019/20</b>	<b>Councillor</b>	<b>Date From</b>	<b>Date To</b>	<b>Salary</b>	<b>Expenses</b>	<b>Total Remuneration 2020/21</b>
£29,751	<b>D Milligan</b> Council Leader	Apr-20	Mar-21	£29,760	£3,466	£33,226
£21,869	<b>J Muirhead</b> Depute Leader	Apr-20	Mar-21	£22,320	£30	£22,350
£22,107	<b>P Smaill</b> Provost and Group Leader	Apr-20	Mar-21	£22,320	£267	£22,587
£21,986	<b>M Russell</b> Depute Provost	Apr-20	Mar-21	£22,320	£166	£22,486
£21,986	<b>C Johnstone</b> Group Leader	Apr-20	Mar-21	£22,320	£(16)	£22,304
£22,103	<b>R Imrie</b> Cabinet Member	Apr-20	Mar-21	£22,320	£257	£22,577
£21,963	<b>S Curran</b> Cabinet Member	Apr-20	Mar-21	£22,320	£32	£22,352
£21,955	<b>J Hackett</b> Cabinet Member	Apr-20	Mar-21	£22,320	£0	£22,320
<b>£183,720</b>	<b>Total</b>			<b>£186,000</b>	<b>£4,202</b>	<b>£190,202</b>

The total remuneration of all the Council's elected members (including Senior Councillors above) and including all business expenses for 2020/21 was £0. 369 Million (2019/20 £0.361 million). Detailed figures for these costs are available on the Council's website, [members' remuneration details for 2020/21](#).

## Remuneration of Employees

The salary of senior employees is set by reference to national arrangement. The Scottish Joint Negotiating Committee (SJNC) 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 Negotiating Committee (SJNC).

The table overleaf details the remuneration paid to Senior Employees (as defined in the regulations) of the Council during the financial year:

<b>Total Remuneration 2019/20</b>	<b>Senior Employee</b>	<b>Date From</b>	<b>Date to</b>	<b>Total Salary, Fees &amp; Allowances 2020/21</b>
£120,188	<b>G Vickers</b> Chief Executive	Apr-20	Mar-21	£119,569
£22,658	<b>M Barrow</b> Joint Director: Health and Social Care (1)	Apr-20	Mar-21	£48,241
£109,448	<b>K Anderson</b> Executive Director: Place	Apr-20	Mar-21	£103,690
£20,026	<b>F Robertson (Start date: January 2020)</b> Executive Director : Children, Young People & Communities	Apr-20	Mar-21	£103,690
£86,008	<b>G Fairley</b> Chief Officer - Corporate Solutions (S95 Officer)	Apr-20	Mar-21	£87,522
£86,565	<b>J Tranent</b> Chief Officer: Children's Services, Partnerships and Communities	Apr-20	Mar-21	£87,522
£88,630	<b>A White</b> Head of Adult Health and Social Care (Chief Social Work Officer)	Apr-20	Mar-21	£87,522
£63,125	<b>A Turpie</b> Legal Services Manager (Monitoring Officer)	Apr-20	Mar-21	£64,964
<b>596,648</b>	<b>Total</b>			<b>£702,720</b>

(1) Post joint funded 50:50 with NHS Lothian, M Barrow Full Time Equivalent £96,482.

## 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:

<b>Pensionable Pay 2020/21</b>	<b>Contribution Rate</b>
On earnings up to and including £22,200	5.5%
On earnings above £22,201 and up to £27,100	7.25%
On earnings above £27,701 and up to £37,200	8.5%
On earnings above £37,201 and up to £49,600	9.5%
On earnings above £49,601	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 <sup>th</sup> pensionable pay each year	n/a
From 1 April 2009 to 31 March 2015	Final Salary	1/60 <sup>th</sup> pensionable pay each year	n/a
Prior to 1 April 2009	Final Salary	1/80 <sup>th</sup> pensionable pay each year	3/80 <sup>th</sup> 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 2021 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***

Year to 31 March 2020	Senior Councillors	Year to 31 March 2021
£4,630	C Johnstone	£4,843
£4,630	R Imrie	£4,843
£4,630	S Curran	£4,843
£4,630	J Hackett	£4,843
<b>£18,520</b>	<b>Total</b>	<b>£19,372</b>

#### ***Senior Councillors Accrued Pension Benefits***

	Pension at 31 March 2021	Lump Sum at 31 March 2021	Pension Difference from 31 March 2020	Lump Sum Difference from 31 March 2020
Senior Councillor	£000	£000	£000	£000
C Johnstone	1	0	0	0
R Imrie	5	2	0	0
S Curran	2	0	1	0
J Hackett	2	0	1	0
<b>Total</b>	<b>10</b>	<b>2</b>	<b>2</b>	<b>0</b>

The pension entitlements for Senior Employees for the year to 31 March 2021 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**

Year to 31 March 2020	Senior Employees	Year to 31 March 2021
£25,480	<b>G Vickers</b> Chief Executive	£25,946
£21,342	<b>K Anderson</b> Executive Director: Place	£22,501
£4,245	<b>F Robertson (Jan 20)</b> Executive Director : Children, Young People & Communities	£22,501
£17,136	<b>G Fairley</b> Chief Officer - Corporate Solutions (S95 Officer)	£18,992
£17,254	<b>J Tranent</b> Chief Officer: Children's Services, Partnerships and Communities	£18,992
£17,254	<b>A White</b> Head of Adult Health and Social Care (Chief Social Work Officer)	£18,992
£13,103	<b>A Turpie</b> Legal Services Manager (Monitoring Officer)	£14,097
<b>£115,814</b>	<b>Total</b>	<b>£142,021</b>

**Senior Employees Accrued Pension Benefits**

	Pension at 31 March 2021	Lump Sum at 31 March 2021	Pension Difference from 31 March 2020	Lump Sum Difference from 31 March 2020
Senior Employee*	£000	£000	£000	£000
G Vickers	11	0	2	0
M Barrow	21	54	5	13
K Anderson	56	103	4	3
F Robertson	8	0	2	0
G Fairley	47	84	5	6
J Tranent	31	41	2	1
A White	22	9	3	1
A Turpie	32	54	3	2
<b>Total</b>	<b>228</b>	<b>345</b>	<b>26</b>	<b>26</b>

\* See Senior Employees in-Year Pension Contributions table above for post title.

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 is a member of the NHS pension scheme. The pension figures shown relate to the benefits accrued as a consequence of total local government service, not solely 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 the table below:

Total Employees 2019/20	Remuneration Band	Non-Teaching Employees 2020/21	Teaching Employees 2020/21	Total Employees 2020/21
82	£50,000-£54,999	5	55	60
48	£55,000-£59,999	9	45	54
33	£60,000-£64,999	4	12	16
9	£65,000-£69,999	0	17	17
4	£70,000-£74,999	3	0	3
2	£75,000-£79,999	0	2	2
5	£80,000-£84,999	0	1	1
1	£85,000-£89,999	3	1	4
1	£95,000-£99,999	0	1	1
2	£100,000-£104,999	2	0	2
0	£115,000-£119,999	1	0	1
1	£120,000-£124,999	0	0	0
<b>188</b>	<b>Total</b>	<b>27</b>	<b>134</b>	<b>161</b>

## 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.

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

Total Employees 2019/20	Total Cost 2019/20 £000	Remuneration Band	Total Employees 2020/21	Total Cost 2020/21 £000
16	185	£0-£19,999	1	16
4	127	£20,000-£39,999	0	0
3	241	£40,000 +	3	215
<b>23</b>	<b>553</b>	<b>Total</b>	<b>4</b>	<b>231</b>

## Trade Union Facility Time

The Council is now required to publish details of Trade Union facility time incurred during the year. Further information is published on the Council website: [Trade union facility time | Midlothian Council](#)

For the reporting year 2020/21, the equivalent of 5.6 FTE employees (across 14 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	£210,322
Total Pay Bill	£153,370,826
Percentage total	0.14%

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

**X**

---

Councillor Jim Muirhead  
Deputy Leader of the Council

**X**

---

Dr Grace Vickers  
Chief Executive

## Independent Auditor's Report

### Independent Auditors Report to the members of Midlothian Council and the Accounts Commission

#### Reporting on the audit of the financial statements

##### *Opinion on financial statements*

We certify that we have audited the financial statements in the annual accounts of Midlothian Council and its group for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Group and Council Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account, and any other disclosures presented as financial statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the Council and its Group as at 31 March 2021 and of the income and expenditure of the Council and its Group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

##### *Basis for opinion*

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 26 July 2016. The period of total uninterrupted appointment is five years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

##### *Conclusions relating to going concern basis of accounting*

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

## **Independent auditor's report to the members of Midlothian Council and the Accounts Commission (continued)**

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

### *Risks of material misstatement*

We report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that we identified and our judgements thereon.

### *Responsibilities of the Chief Officer Corporate Solutions and Audit Committee for the financial statements*

As explained more fully in the Statement of Responsibilities, the Chief Officer Corporate Solutions is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer Corporate Solutions determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer Corporate Solutions is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit Committee is responsible for overseeing the financial reporting process.

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the council is complying with that framework;
- identifying which laws and regulations are significant in the context of the council;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.



## **Independent auditor's report to the members of Midlothian Council and the Accounts Commission (continued)**

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### *Reporting on other requirements*

#### *Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report*

We have audited the part of the Remuneration Report described as audited. In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

#### *Statutory other information*

The Chief Officer Corporate Solutions is responsible for the statutory other information in the annual accounts. The statutory other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities and the unaudited part of the Remuneration Report.

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this statutory other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the statutory other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

#### *Opinions prescribed by the Accounts Commission on Management Commentary and Annual Governance Statement*

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has

**Independent auditor's report to the members of Midlothian Council and the Accounts Commission (continued)**

- been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

*Matters on which we are required to report by exception*

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

*Conclusions on wider scope responsibilities*

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

## Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Stephen Reid, for and on behalf of Ernst & Young LLP

Ernst & Young LLP

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

Date:

## Principal Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position as 31 March 2021 and its cash flows. The Annual Accounts are prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* (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 the 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 Council 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 the 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 authority 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 the recipients of 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

2019/20					2020/21				
Gross Expenditure	Gross Income	Net Expenditure or (Income)	Group Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure or (Income)	Group Net Expenditure	
£000	£000	£000	£000	Service	£000	£000	£000	£000	Notes
2,155	(53)	2,102	2,102	Management and Members	2,080	(13)	2,067	2,067	EFA
20,005	(1,356)	18,649	18,649	Children's Services, Partnerships and Communities	22,855	(2,264)	20,591	20,591	EFA
110,203	(11,853)	98,350	98,350	Education	125,681	(19,538)	106,143	106,143	EFA
8,582	(5,440)	3,142	3,142	Adult Health and Social Care	5,136	(945)	4,191	4,191	EFA
109,706	(64,443)	45,263	45,263	Midlothian Integrated Joint Board	114,837	(67,198)	47,639	47,639	EFA
71,766	(34,158)	37,606	37,606	Place	68,605	(24,955)	43,650	43,650	EFA
38,659	(24,103)	14,556	14,556	Corporate Solutions	38,171	(25,383)	12,788	12,789	EFA
5,411	(29,864)	(24,453)	(24,453)	Housing Revenue Account	39,372	(29,780)	9,592	9,592	EFA
549	0	549	549	Lothian Valuation Joint Board	567	0	567	567	EFA
(346)	0	(346)	(346)	Central Costs	65	0	65	65	EFA
1,550	0	1,550	1,550	Non- Distributable Costs	1,363	0	1,363	1,369	EFA
<b>368,240</b>	<b>(171,270)</b>	<b>196,968</b>	<b>196,968</b>	<b>Cost of Services</b>	<b>418,732</b>	<b>(170,076)</b>	<b>248,656</b>	<b>248,663</b>	
		0	(286)	Share of Operating results of Associates			0	(4,150)	
		724	724	Other Operating (Income) or Expenditure			30	30	9
		17,113	17,113	Financing and Investment Income and Expenditure			17,801	17,801	10
		(241,716)	(241,716)	Taxation and Non-Specific Grant Income			(258,062)	(258,062)	11
		<b>(26,911)</b>	<b>(27,197)</b>	<b>(Surplus) or Deficit on Provision of Services</b>			<b>8,425</b>	<b>4,282</b>	12
		(44,276)	(44,276)	(Surplus) or Deficit on revaluation of Property, Plant and Equipment assets			(90,163)	(90,163)	
		(42,897)	(42,897)	Re-measurement of the net defined benefit liability/(asset)			31,746	31,746	
		897	593	Other (Gains) / Losses			2,585	2,715	
		<b>(86,276)</b>	<b>(86,580)</b>	<b>Other Comprehensive (Income) and Expenditure</b>			<b>(55,832)</b>	<b>(55,702)</b>	
		<b>(113,187)</b>	<b>(113,776)</b>	<b>Total Comprehensive (Income) and Expenditure</b>			<b>(47,407)</b>	<b>(51,420)</b>	

## Group and Council Movement in Reserves Statement

	General Fund Reserve	Housing Revenue Account	Capital Fund	Repairs and Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2020</b>	<b>(13,428)</b>	<b>(44,395)</b>	<b>(25,364)</b>	<b>(3,670)</b>	<b>(86,857)</b>	<b>(401,715)</b>	<b>(488,572)</b>	<b>(1,864)</b>	<b>(490,436)</b>
Movement between Lothian Valuation Joint Board 2019/20 Unaudited and Audited Accounts	0	0	0	0	0	0	0	(31)	(31)
<b>Revised Balance 31 March 2020</b>	<b>(13,428)</b>	<b>(44,395)</b>	<b>(25,364)</b>	<b>(3,670)</b>	<b>(86,857)</b>	<b>(401,715)</b>	<b>(488,572)</b>	<b>(1,895)</b>	<b>(490,467)</b>
Total Comprehensive Expenditure and Income	(7,739)	16,165	1,206	0	9,632	(57,039)	(47,407)	(4,014)	(51,421)
Adjustments between accounting basis and funding basis under regulations <b>(Note 7)</b>	(6,874)	(22,013)	0	0	(28,887)	28,888	1	0	1
Transfers to/(from) other statutory reserves	(1,631)	1,858	0	(227)	0	0	0	0	0
<b>Increase/(Decrease) in year</b>	<b>(16,244)</b>	<b>(3,990)</b>	<b>1,206</b>	<b>(227)</b>	<b>(19,255)</b>	<b>(28,151)</b>	<b>(47,406)</b>	<b>(4,014)</b>	<b>(51,420)</b>
<b>Balance at 31 March 2021 Carried Forward</b>	<b>(29,672)</b>	<b>(48,385)</b>	<b>(24,158)</b>	<b>(3,897)</b>	<b>(106,112)</b>	<b>(429,866)</b>	<b>(535,978)</b>	<b>(5,909)</b>	<b>(541,887)</b>

	General Fund Reserve	Housing Revenue Account	Capital Fund	Repairs and Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 31 March 2019</b>	<b>(8,637)</b>	<b>(39,083)</b>	<b>(20,169)</b>	<b>(2,957)</b>	<b>(70,845)</b>	<b>(304,539)</b>	<b>(375,384)</b>	<b>(1,380)</b>	<b>(376,764)</b>
Movement between Lothian Valuation Joint Board 2018/19 Unaudited and Audited Accounts	0	0	0	0	0	0	0	105	105
<b>Revised Balance 31 March 2019</b>	<b>(8,637)</b>	<b>(39,083)</b>	<b>(20,169)</b>	<b>(2,957)</b>	<b>(70,847)</b>	<b>(304,539)</b>	<b>(375,384)</b>	<b>(1,275)</b>	<b>(376,659)</b>
Total Comprehensive Expenditure and Income	(9,029)	(17,882)	0	0	(26,911)	(86,276)	(113,187)	(589)	(113,776)
Adjustments between accounting basis and funding basis under regulations <b>(Note 7)</b>	3,526	12,570	(5,195)	0	10,901	(10,901)		0	0
Transfers to/(from) other statutory reserves	713	0	0	(713)	0	0	0	0	0
<b>Increase/(Decrease) in year</b>	<b>(4,791)</b>	<b>(5,312)</b>	<b>(5,195)</b>	<b>(713)</b>	<b>(16,010)</b>	<b>(97,177)</b>	<b>(113,187)</b>	<b>(589)</b>	<b>(113,776)</b>
<b>Balance at 31 March 2020 Carried Forward</b>	<b>(13,428)</b>	<b>(44,395)</b>	<b>(25,364)</b>	<b>(3,670)</b>	<b>(86,857)</b>	<b>(401,716)</b>	<b>(488,573)</b>	<b>(1,864)</b>	<b>(490,435)</b>

## Group and Council Balance Sheet

31 Mar 20	31 Mar 20		31 Mar 21	31 Mar 21	
Midlothian Council	Group		Midlothian Council	Group	
£000	£000		£000	£000	Notes
891,621	891,623	Property, Plant and Equipment	963,462	963,464	13
82	82	Heritage Assets	324	324	14
619	619	Intangible Assets	548	548	15
3,713	3,669	Long-term Debtors	3,943	3,897	16/17
7,363	7,363	Long-term Investments	5,824	5,824	17
0	1,820	Share of net assets of associates	0	5,871	39
<b>903,398</b>	<b>905,176</b>	<b>Long-term Assets</b>	<b>974,101</b>	<b>979,928</b>	
85,370	85,370	Short-term Investments	75,442	75,442	17
1,371	1,370	Assets held for Sale	1,254	1,253	19
744	744	Inventories	938	938	20
22,107	22,157	Short-term Debtors	29,260	29,311	17/21
24,682	24,682	Cash and Cash Equivalents	53,182	53,182	17/22
<b>134,274</b>	<b>134,323</b>	<b>Current Assets</b>	<b>160,076</b>	<b>160,126</b>	
(11,441)	(11,441)	Short-term Borrowing	(3,700)	(3,700)	17
(45,031)	(44,996)	Short-term Creditors	(44,275)	(44,243)	17/23
(836)	(836)	Provisions	(723)	(723)	24
(33,927)	(33,927)	Grants Received in Advance	(38,663)	(38,663)	28
<b>(91,235)</b>	<b>(91,198)</b>	<b>Current Liabilities</b>	<b>(87,361)</b>	<b>(87,329)</b>	
(260,427)	(260,427)	Long-term Borrowing	(273,893)	(273,893)	17
(99,718)	(99,718)	Other Long-term Liabilities (PPP Contracts)	(95,915)	(95,915)	17/32
(97,719)	(97,719)	Other Long-term Liabilities (Pensions)	(141,030)	(141,030)	34
<b>(457,864)</b>	<b>(457,864)</b>	<b>Long-term Liabilities</b>	<b>(510,838)</b>	<b>(510,838)</b>	
<b>488,573</b>	<b>490,435</b>	<b>Net Assets</b>	<b>535,978</b>	<b>541,887</b>	
86,857	89,291	Usable Reserves	106,112	112,743	25
401,716	401,144	Unusable Reserves	429,866	429,144	26
<b>488,573</b>	<b>490,435</b>	<b>Total Reserves</b>	<b>535,978</b>	<b>541,887</b>	

The unaudited accounts were authorised for issue on 29 June 2021 and the audited accounts authorised for issue on 28 September 2021.

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 2021, and its income and expenditure for the year ended 31 March 2021.

**X**

Gary Fairley  
Chief Officer, Corporate Solutions

## Group and Council Cash Flow Statement

2019/20 Midlothian Council £000	2019/20 Group £000		2020/21 Midlothian Council £000	2020/21 Group £000
26,911	27,196	<b>Net (Surplus) or Deficit on the Provision of Services</b>	<b>(8,425)</b>	<b>(4,282)</b>
		<b>Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements</b>		
33,071	33,071	Depreciation	33,321	33,321
(18,660)	(18,660)	Impairment and downward revaluations	16,767	16,767
316	316	Amortisation	317	317
(1,568)	(1,565)	(Increase)/decrease in debtors	(7,291)	(7,292)
(1,573)	(1,575)	Increase/(decrease) in creditors	7,071	7,068
125	125	(Increase)/decrease in inventories	(196)	(196)
16,257	16,257	Movement in pension liability	11,565	11,565
4,632	4,632	Carrying amount of non-current assets sold or derecognised	317	317
69	(217)	Other non-cash items charged to the net surplus or deficit on the provision of services	(365)	(4,504)
<b>32,669</b>	<b>32,384</b>		<b>61,506</b>	<b>57,363</b>
		<b>Adjust for Items included in the Net Surplus or Deficit that are Investing and Financing Activities</b>		
64,985	64,985	Proceeds from short-term and long-term investments	84,986	84,986
(3,914)	(3,914)	Sale of property, plant and equipment, investment property and intangible assets	(287)	(287)
(40,295)	(40,295)	Any other items for which the cash effects are investing or financing cash flows	(22,993)	(22,993)
<b>20,776</b>	<b>20,776</b>		<b>61,706</b>	<b>61,706</b>
<b>53,445</b>	<b>53,160</b>	<b>Net Cash Flows from Operating Activities</b>	<b>123,212</b>	<b>119,069</b>
		<b>Investing Activities</b>		
(56,045)	(56,045)	Purchase of property, plant and equipment, investment property and intangible assets	(34,791)	(34,791)
(84,985)	(84,985)	Purchase of short-term and long-term investments	(74,985)	(74,985)
(551)	(551)	Other payments for investing activities	(864)	(864)
3,914	3,914	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	287	287
42,670	42,670	Other receipts from investing activities	28,661	28,661
<b>(94,997)</b>	<b>(94,997)</b>	<b>Net Cash Flows from Investing Activities</b>	<b>(81,692)</b>	<b>(81,692)</b>
		<b>Financing Activities</b>		
76,500	76,500	Cash receipts of short- and long-term borrowing	15,000	15,000
(3,156)	(3,156)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance-sheet PFI contracts	(10,471)	(10,471)
0	0	Other Receipts from Financing Activities	159	159
(44,701)	(44,701)	Repayments of short- and long-term borrowing	(9,283)	(9,283)
<b>28,643</b>	<b>28,643</b>	<b>Net Cash Flows from Financing Activities</b>	<b>(4,595)</b>	<b>(4,595)</b>
<b>14,002</b>	<b>14,002</b>	<b>Net Increase in Cash and Cash Equivalents</b>	<b>28,500</b>	<b>28,500</b>
10,680	10,680	Cash and Cash Equivalents at 1 April	24,682	24,682
<b>24,682</b>	<b>24,682</b>	<b>Cash and Cash Equivalents at 31 March</b>	<b>53,182</b>	<b>53,182</b>

The cash flows for operating activities include the following items:

£000	£000	Cash Flow Statement: Interest Paid and Received	£000	£000
403	403	Interest Received	1,987	1,987
(16,192)	(16,192)	Interest Paid	(17,470)	17,470
0	0	Dividends Received	0	0

## Expenditure and Funding Analysis

This statement 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 is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20				2020/21		
Net expenditure chargeable to the General Fund and HRA balances	Adjustments (note 6)	Net expenditure in the CIES (note 12)		Net expenditure chargeable to the General Fund and HRA balances	Adjustments (note 6)	Net expenditure in the CIES (note 12)
£000	£000	£000	Service	£000	£000	£000
1,962	140	2,102	Management & Members	1,962	105	2,067
17,680	969	18,649	Children's Services, Partnerships & Communities	19,774	817	20,591
81,255	17,094	98,349	Education	88,424	17,719	106,143
2,193	949	3,142	Adult Health & Social Care	4,353	(162)	4,191
42,595	2,670	45,265	Midlothian Integrated Joint Board	44,985	2,654	47,639
26,846	10,762	37,608	Place	30,074	13,576	43,650
13,218	1,336	14,554	Corporate Solutions	13,737	(949)	12,788
(15,937)	(8,517)	(24,454)	Housing Revenue Account	(17,747)	27,339	9,592
549	0	549	Joint Boards	567	0	567
(937)	592	(345)	Central Costs	65	0	65
1,532	18	1,550	Non-Distributable Costs	1,352	11	1,363
<b>170,956</b>	<b>26,014</b>	<b>196,969</b>	<b>Net Cost of Services</b>	<b>187,546</b>	<b>61,110</b>	<b>248,656</b>
11,881	(11,157)	724	Other Income and Expenditure	11,846	(11,816)	30
13,972	3,141	17,113	Financing and Investment Income and Expenditure	15,449	2,352	17,801
(206,910)	(34,806)	(241,716)	Taxation and non-specific grant income	(235,076)	(22,986)	(258,062)
<b>(10,101)</b>	<b>(16,808)</b>	<b>(26,910)</b>	<b>(Surplus) or Deficit</b>	<b>(20,235)</b>	<b>28,660</b>	<b>8,425</b>
(47,720)			Opening General Fund and HRA Balance	(57,822)		
(10,102)			Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in year	(20,235)		
<b>(57,822)</b>			<b>Closing General Fund and HRA Balance at 31 March*</b>	<b>(78,057)</b>		

\*For a split of this balance between the General Fund and the HRA – See the Movement in Reserves Statement.



## 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 Statement of Accounts for 2020/21 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. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. In accordance with the CIPFA Code of Local Government Accounting (2020/21), the Council is required to prepare its financial statements 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.

Midlothian Council approved an update to the Medium-Term Financial Strategy for the period 2021/22 to 2023/24 at the Council meeting of 23 February 2021, where a balanced budget was presented for the period 2021/22 and with no further proposed service reductions.

The council continues to face unprecedented challenges, including the impact of Covid-19, in delivering essential services whilst resources are constrained. While there remains uncertainty around Covid-19 implications going forward, an update to Council on 24 August 2021 reported that Covid funding provided to the Council by the Scottish Government late in 2020/21 alongside other funding streams aligned to COVID recovery were carried forward from 2020/21 to 2021/22. Funding continues to be applied in year to match costs and lost income with the planning assumption that the remainder will be applied in 2021/22 or in future years to mitigate the impact of the pandemic and support increase service costs across Midlothian.

The council's minimum uncommitted general fund balance is £3.650 million. The uncommitted general fund balance at 31 March 2021 is £3.812 million. The most recent budget monitoring update for 2021/22 reported to Council in August forecasts an underspend of £0.323 million which will increase the uncommitted balance to £4.142 million at 31 March 2022. Whilst further Scottish Government Covid-19 funding for 2021/22 is still to be determined recent projections show funding carried forward from 2020/21 is sufficient to cover additional costs incurred, although should additional cost pressures exceed the remaining general reserve balance, the Council will consider a range of options to balance the budget, as outlined below.

The Council continues to work with the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to monitor the level of additional cost pressures and reduced income levels arising from COVID-19. The Council continues to regularly monitor its financial position and provide full financial updates to the Council as appropriate, including options on addressing any new budget gaps and spending pressures. This may include approved financial flexibilities, including the option to exercise a Loans Fund repayment holiday, reprioritisation of earmarked reserves and balances, restrictions on expenditure, including recruitment, revisions to service delivery or service standards and identification of additional saving measures. Management is continuing to liaise with Scottish Government and COSLA on ensuring sustainable funding going forward.

Midlothian Council has a high level of balances of short-term investments, totalling £131.272 million at 31 March 2021 and £140.966 million at 31 August 2021. Normally when investments mature they are

reinvested for periods up to a year. During the pandemic maturing investments have been retained in highly liquid instruments, such as the overnight bank account or money market funds, to ensure that the funds are available as required. The Council's cash flow is monitored daily by management and the Council does not forecast any cash flow shortage through to 30 September 2022, with forecast cash of £66.028 million.

On this basis, the Council is satisfied that it has sufficient reserves and liquidity to continue as a going concern for a period of at least 12 months from authorisation of the financial statements.

## 1. Accounting Policies

### *i. General Principles*

The Accounts summarise the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. 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 2020/21*, 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 historic 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 and 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 investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### *iii. Cash and Cash Equivalents*

Cash is represented by cash in hand deposits with financial institutions repayable without penalty on notice of not more than 24 hours, or card payments made by customers with a two day business settlement period

or less. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash and insignificant risk in 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 and Estimations and Errors*

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

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

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

*v. Charges to Revenue for Non-Current Assets*

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

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

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

*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 salaries, paid annual leave and flexi-time balances 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 which employees can carry forward into the next financial year. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement

so that holiday 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 the 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 Non-distributed Costs line in the Comprehensive Income and Expenditure Statements when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary severance.

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

#### Post-Employment Benefits

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

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

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

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

#### The Local Government Pension Scheme

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

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

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

- 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 arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the 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 authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

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

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 Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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*

These are events, both favourable and unfavourable, that occur between the end of the reporting period (31 March) and the date when the statement of accounts are authorised for issue. Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the 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 the 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 the 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 the interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where the 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 financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised Cost;
- Fair value through profit and loss (FVPL);
- Fair value through other comprehensive income (FVOCI).

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

##### ***Financial Assets Measured At Amortised Cost***

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the 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 an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

#### *Expected Credit Loss Model*

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

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

#### ***Financial Assets Measured At Fair Value through Profit or Loss (FVPL)***

The Council does not currently have any Financial Assets measured at FVPL.

#### ***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 Measurements 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; and
- Other instruments with fixed and determinable payments – discounted cash flow analysis. The Council does not carry any of these financial assets.

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

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

Any gains and losses that arise from the 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, along with any accumulated gains or losses previously recognised in the Financial Instruments Revaluation Reserve.

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 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 embodied in the asset in the form of the grant and contribution are required to be consumed by the recipient as specified, or future economic benefits of 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. Where conditions are satisfied, the grant or contribution is credited to the relevant service (revenue grants and contributions) or Taxation and Non-Specific Grant Income (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.

Additional Scottish Government funding provided in relation to Covid-19 has been accounted for as grant income in line with all other government grant income on an accruals basis, and any related expenditure recognised separately in the financial statements.

Grants have been designated as either principal or agency based on the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with further guidance provided by the LASAAC Guidance on Accounting for Coronavirus (Covid-19) Grants / Funding Streams. Definitions and treatment of grants are as follows: -

**Agency**

Grant income where the council is acting as an agent, as an intermediary in distributing funds from the Scottish Government, has not been recorded in the CIES as the council does not retain the risks and rewards of the income and related expenditure.

*Note 37* provides a detailed analysis of grants where the council has acted as an agent for Covid-19 grant funding from Scottish Government.



## Principal

Grant income where the council is acting as a principal, on its own behalf, has been recorded in the CIES and the notes to the financial statements. *Note 37* in the financial statements provides a detailed analysis of grants where the council has acted as principal for Covid-19 grant funding from Scottish Government.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement and Capital Adjustment Account until conditions attached to each grant have been satisfied.

Monies advanced as revenue grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the revenue grants are credited to the service line in the Comprehensive Income and Expenditure Statement and, for capital grants, to the Capital Adjustment Account.

### *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 Central 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 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, in line with *IFRS 13*:

- Council 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;
- Other land and buildings – current value, determined by the amount that would be paid for the asset in its existing use (existing use value – EUV);
- Community and infrastructure assets – depreciated historical cost;
- Vehicles, Plant and Equipment – depreciated historical cost;
- Assets under construction – historical cost;
- Surplus Assets – fair value based on open market value.

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 CIES where they arise from the reversal of a loss that has been previously charged to the service.

Where decreases in value are identified, they are accounted for as follows:

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

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 Comprehensive Income and Expenditure Statement.

Where an impairment loss is subsequently reversed, the reversal is credited to the Revaluation Reserve or the relevant service line(s) in the Comprehensive Income and Expenditure Statement, 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 valuers;
- Vehicles, plant and equipment – straight-line allocation over the useful life of the assets in Balance Sheet, as advised by a suitably qualified officer);
- Infrastructure – straight-line allocation;

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 the 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 previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

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

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

*xvi. Public Private Partnership (PPP) and Similar Contracts*

Such 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 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;
- Liability repayment – 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.

*xvii. 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. insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settled 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.

#### xviii. 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.

#### xix. *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 CIES 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.

#### xx. VAT

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

## xxi. Fair Value Measurement of Non-Financial Assets

The Council values 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 or liability, 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 best and highest 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 authority can access at the measurement date;
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

## 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 2021/22 code.

- Definition of a Business: Amendments to IFRS 3 Business Combinations;
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7; and
- Interest Rate Benchmark Reform – Phase 2: amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The changes will be effective from the 1st April 2021 and none are expected to have a material impact on the Council's 2020/21 or 2021/22 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. In relation to the impact of the Covid-19 pandemic on the council's income streams and the impact of increased operating costs, there remains uncertainty over the medium term. In particular in relation to the funding from Scottish Government to meet the additional costs arising from Covid-19 recovery and, as a consequence, the potential impact on the council's future budget strategy. The Council continues to monitor and update its Medium Term Strategy which is reported to Council to ensure continued financial sustainability;

- The Council has entered into Public-Private Partnerships (PPP) and similar type contracts for the provision of educational buildings and waste facilities as detailed in **Note 32**. 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 £172.668 million, with a corresponding liability in relation to future payments to be made under the scheme of £99.203 million.

- Acting as a principal or agent in income and expenditure transactions – The Council has applied its judgement in determining the recognition of income and expenditure related to government grants where it may be considered either an agent or the principal in receiving and distributing funds. In particular in 2020/21 the Council has applied its judgement in line with its understanding of [LASAAC guidance on accounting for coronavirus grants](#) in accounting for funds related to Covid-19 received and distributed in the year. The impact of this interpretation, detailed in **Note 37** has resulted in £0.853 million being recognised by the Council as income and subsequent expenditure where the Council is considered to be a principal, with £19.3 million disclosed in but not recognised in the financial statements where the Council is considered to be an agent.
- Associates - There 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 £0.567 million annually, and as such is considered to hold significant influence. Details of the impact on the Group accounts is provided in **Note 39**.

#### 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. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet as at 31 March 2021 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 a number of 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 2021 is outlined and broken down by asset category at <b>note 13</b>.</p> <p>In particular, additional consideration continues to be given to the effects of the Covid-19 Pandemic on the council's property assets and their associated values. In order to take an informed view and to gauge the position of the wider valuation profession on this matter, consultation has taken place with colleagues from a wide range of Scottish local authorities, private practice surveyors, the Association of Chief Estate Surveyors (ACES) and the Royal Institute of Chartered Surveyors (RICS).</p> <p><b>2020/21 revaluations</b></p> <p>In 2020/21, revaluations were undertaken for the following assets:</p> <p>31 March - housing stock discount factor, and the Council's schools. The housing assets were revalued on a EUV-SH basis and totalled £406,110 and the schools assets were revalued on a DRC basis and totalled £366,398, with a valuation movement of (£16,790) for housing and £57,910 for schools (from previous valuation (4.13%) for housing, 19.71% for schools).</p> <p>The changes in valuation in assets in 2020/21, compared to 2019/20, 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, and updated information on the indices used to value Leisure Centres.</p> <p><b>Market Valuation Uncertainty Statement</b></p> <p>As at 31 March 2020 there was an unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements. Consequently, the Council recognised that assets subject to valuation in the prior year, had less certainty, and a higher degree of caution, should be attached to the valuation than would normally be the case.</p> <p>From 9 September 2020 (Supplemented on 3 November 2020 and 5 January 2021) the RICS Material Valuation Uncertainty Leaders Forum (UK) recommended a general lifting of material valuation uncertainty which had been applied due to the unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base judgements. Despite this general lifting of material valuation uncertainty, the council considers that the non-housing assets valued as part of the quinquennial asset valuation programme should be reported on the basis of</p>	<p>The net book value of all council property, plant and equipment subject to revaluation through the 5 year revaluation cycle is £813.889 million. Assets revalued in 2020/21 totalled £302.201 million before revaluation.</p> <p>The impact of a 5% change in valuation of these would be £19.787 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 £2.984m for every year that useful lives had to be reduced.</p>

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>material valuation uncertainty, as there was a lack of market activity on or around the valuation date on which to properly assess an opinion of value. In contrast, the council's housing stock will not be reported as being subject to material valuation uncertainty.</p> <p>For the avoidance of doubt this explanatory note, including the material valuation uncertainty declaration, does not mean that the valuations cannot be relied upon. Rather, this explanatory note has been included to ensure transparency and to provide further insight as to the market context under which the valuation was prepared. In recognition of the potential for market conditions to move rapidly in response to changes in the control or future spread of Covid-19 we highlight the importance of the valuation date.</p> <p><b>Ongoing assessment of asset valuation</b></p> <p>In addition to full 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 2021, there has been no material change in the assets not subject to revaluation in the year that would require an earlier revaluation. As a result of this process the Council's portfolio were subject to early revaluation. The council has also continued to assess the valuation of its asset base subsequent to 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 a number of assumptions including the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets.</p>	

### Council Tax and Non- Domestic Rates Debt

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>As at 31 March the authority has Council Tax and Non-Domestic Rates debt due of £42.722 million. Management reviewed this balance at 31 March and determined that an allowance for doubtful debts, detailed in <b>Note 21</b>, of £37.145 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.</p>	<p>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 £0.371 million, 3% an increase of £1.114 million and 5% an increase of £1.857million.</p>

## Pension Liability

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which 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 by the Council in estimating these values at the balance sheet date.</p> <p>The actuarial inputs into the pension liability 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 liability at 31 March 2021 following the updated actuarial valuation was £141.030 million, an increase of £43.311 million from 31 March 2020. This was driven by a 0.95% change in the discount rate and inflation rate.</p> <p>Given the history of significant changes to liability 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 3 - 5%, approximately between £4 million and £7 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 <b>note 34</b> to the accounts, including information on the key assumptions, risks and sensitivities. An update is also included in this note on the latest development around a number of equalisation adjustments to pension liabilities which have occurred in LGPS and may continue to materially impact the valuation of the Council's liability going forward.</p>	<p>The effects of the net pension liability 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 2020/21 the Council's actuary advised that the net pensions liability had increased by £43.311 million as a result of estimates being corrected as a result of experience of £11.565 million and £31.746 million attributable to updating of the assumptions.</p>

## 5. Events after the Reporting Period

The Unaudited Accounts were authorised for issue by the Chief Officer, Corporate Solutions on 30<sup>th</sup> June 2021. Where events taking place before this date provided information about conditions existing at 31 March 21, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

On the 19 August 2021 a proposal was put forward to The City of Edinburgh Council Transport and Environment Committee to reform the Transport Arm's Length External Organisations (ALEO's), including Lothian Buses, of which the Council is a minority shareholder. Although legal work is still to be progressed to ensure the minority interests are protected it is not expected that the Council's current interest and obligations in Lothian Buses will be adversely impacted or the Council's share of net assets or commitment

to the pension guarantee be diluted as a result of the restructure, therefore the accounts have not been adjusted to reflect this event.

## 6. Note to the Expenditure and Funding Analysis

### Adjustments between Funding and Accounting Basis 2020/21

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes (1)	Net change for pension adjustments (2)	Other Adjustments (3)	Total Adjustments
	£000	£000	£000	£000
Management and Members	0	86	19	105
Children's Services, Partnerships & Communities	328	463	26	817
Education	11,365	4,842	1,512	17,719
Adult Health and Social Care	(208)	0	46	(162)
Midlothian Integrated Joint Board	1,066	1,173	415	2,654
Place	8,894	2,434	2,248	13,576
Corporate Solutions	1,669	(183)	(2,435)	(949)
Housing Revenue Account	26,943	397	(1)	27,339
Joint Boards	0	0	0	0
Central Costs	0	0	0	0
Non-Distributable Costs	0	0	11	11
<b>Net Cost of Services</b>	<b>50,057</b>	<b>9,212</b>	<b>1,841</b>	<b>61,110</b>
Other income and expenditure from the Expenditure and Funding Analysis	(34,793)	2,352	(9)	(32,450)
<b>Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services</b>	<b>15,264</b>	<b>11,564</b>	<b>1,832</b>	<b>28,660</b>

## Adjustments between Funding and Accounting Basis 2019/20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes (1)	Net change for pension adjustments (2)	Other Adjustments (3)	Total Adjustments
	£000	£000	£000	£000
Management and Members	0	119	21	140
Children's Services, Partnerships & Communities	256	638	75	969
Education	8,146	6,668	2,280	17,094
Adult Health and Social Care	949	0	0	949
Midlothian Integrated Joint Board	679	1,615	377	2,671
Place	8,292	3,352	(882)	10,762
Corporate Solutions	1,534	179	(377)	1,336
Housing Revenue Account	(9,063)	546	0	(8,517)
Joint Boards	0	0	0	0
Central Costs	592	0	0	592
Non-Distributable Costs	0	0	18	18
<b>Net Cost of Services</b>	<b>11,385</b>	<b>13,117</b>	<b>1,512</b>	<b>26,014</b>
Other income and expenditure from the Expenditure and Funding Analysis	(45,954)	3,141	(9)	(42,822)
<b>Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services</b>	<b>(34,569)</b>	<b>16,258</b>	<b>1,503</b>	<b>(16,808)</b>

**(1) Adjustments for Capital Purposes**

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

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

**(2) Net Change for the 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 authority as allowed by statute and the replacement with current service costs and past service costs;
- **For financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

### (3) Other Adjustments

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

- **For services** – this represents the 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 and the removal of the impact of internal recharges from segments in the CIES, in accordance with IFRS 8 and associated guidance;
- **For financing and investment income and expenditure** – this is an 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 Statement (CIES) recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out the 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 authority 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)** – 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.

**Capital Fund** – Can be used to defray any expenditure of the Council to which capital is properly applicable, or in providing money for repayment of the principal of loans (but not any payment of interest of loans), subject to the provisions of Schedule 3, Section 22 (1) of the *Local Government (Scotland) Act 1975*.

Adjustments between Accounting Basis and Funding Basis under Regulations	General Fund Reserve	Housing Revenue Account	Capital Fund	Total Useable Reserves	Total Unusable Reserves
2020/21	£000	£000	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>					
<i>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:</i>					
• Pensions Costs	(11,077)	(488)	0	<b>(11,565)</b>	11,565
• Financial Instruments	9	0	0	<b>9</b>	(9)
• Short-term Accumulated Absences	(1,841)	0	0	<b>(1,841)</b>	1,841
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure	(23,103)	(26,954)	0	<b>(50,057)</b>	50,057
<b>Total Adjustments to Revenue Resources</b>	<b>(36,012)</b>	<b>(27,442)</b>	<b>0</b>	<b>(63,454)</b>	<b>63,454</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Net gain or loss on sale of non-current assets	(11)	(19)	0	<b>(30)</b>	30
Statutory provision for the repayment of debt	6,164	5,447	0	<b>11,611</b>	(11,610)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>6,153</b>	<b>5,428</b>	<b>0</b>	<b>11,581</b>	<b>(11,580)</b>
<b>Adjustments to Capital Resources</b>					
Application of capital grants to finance capital expenditure	22,986	0	0	<b>22,986</b>	(22,986)
<b>Total Adjustments to Capital Resources</b>	<b>22,986</b>	<b>0</b>	<b>0</b>	<b>22,986</b>	<b>(22,986)</b>
<b>Total Adjustments</b>	<b>(6,873)</b>	<b>(22,014)</b>	<b>0</b>	<b>(28,887)</b>	<b>28,888</b>

Adjustments between Accounting Basis and Funding Basis under Regulations	General Fund Reserve	Housing Revenue Account	Capital Fund	Total Useable Reserves	Total Unusable Reserves
2019/20	£000	£000	£000	£000	£000
<b>Adjustments to the Revenue Resources</b>					
<i>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:</i>					
• Pensions Costs	(15,589)	(668)	0	<b>(16,257)</b>	16,257
• Financial Instruments	9	0	0	<b>9</b>	(9)
• Short-term Accumulated Absences	(1,512)	0	0	<b>(1,512)</b>	1,512
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure	(23,595)	9,064	0	<b>(14,531)</b>	14,531
<b>Total Adjustments to Revenue Resources</b>	<b>(40,687)</b>	<b>8,396</b>	<b>0</b>	<b>(32,291)</b>	<b>32,291</b>
<b>Adjustments between Revenue and Capital Resources</b>					
Net gain or loss on sale of non-current assets	0	(724)	0	<b>(724)</b>	724
Statutory provision for the repayment of debt	6,260	4,899	0	<b>11,159</b>	(11,159)
Net revenue expenditure financed from capital under statute (REFFCUS)	(592)	0	0	<b>(592)</b>	592
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>5,668</b>	<b>4,175</b>	<b>0</b>	<b>9,843</b>	<b>(9,843)</b>
<b>Adjustments to Capital Resources</b>					
Application of capital grants to finance capital expenditure	38,544	0		<b>38,544</b>	(38,544)
Adjustments involving the capital fund	0	0	(5,195)	<b>(5,195)</b>	5,195
<b>Total Adjustments to Capital Resources</b>	<b>38,544</b>	<b>0</b>	<b>(5,195)</b>	<b>33,349</b>	<b>(33,349)</b>
<b>Total Adjustments</b>	<b>3,525</b>	<b>12,571</b>	<b>(5,195)</b>	<b>10,901</b>	<b>(10,901)</b>

## 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 2021/22.

	Balance at 1 April 2019	Transfers out 2019/20	Transfers in 2019/20	Balance at 31 March 2020	Transfers Out 2020/21	Transfers in 2020/21	Balance at 31 March 2021
	£000	£000	£000	£000	£000	£000	£000
Scheme of Devolved Budget Management carry forwards	(3,220)	3,220	(8,580)	(8,580)	8,580	(23,607)	(23,607)
Business Transformation Programme	(750)	291	0	(459)	141	(1,250)	(1,568)
Management Policy	(364)	364	(142)	(142)	142	(486)	(486)
Training Budget	(199)	0	0	(199)	0	0	(199)
<b>Total Earmarked Reserves</b>	<b>(4,533)</b>	<b>3,875</b>	<b>(8,722)</b>	<b>(9,380)</b>	<b>8,863</b>	<b>(25,343)</b>	<b>(25,860)</b>
Non-Earmarked Reserves	(4,104)	56	0	(4,048)	236	0	(3,812)
<b>Total General Fund Balance</b>	<b>(8,637)</b>	<b>3,931</b>	<b>(8,722)</b>	<b>(13,428)</b>	<b>9,099</b>	<b>(25,343)</b>	<b>(29,672)</b>

## 9. Other Operating Income and Expenditure

2019/20 £000	Other Operating Income and Expenditure	2020/21 £000
724	(Gains)/Losses on disposal of non-current assets	30
<b>724</b>	<b>Total</b>	<b>30</b>

## 10. Financing and Investment Income and Expenditure

2019/20 £000	Financing and Investment Income and Expenditure	2020/21 £000
15,859	Interest payable and similar charges	17,470
3,141	Net interest on the net defined benefit liability (asset)	2,352
(1,887)	Interest receivable and similar income	(2,021)
<b>17,113</b>	<b>Total</b>	<b>17,801</b>

## 11. Taxation and Non-Specific Grant Income

2019/20 £000	Taxation and Non-Specific Grant Income	2020/21 £000
46,380	Council Tax Income	49,301
31,520	Non-domestic Rates Income	19,517
129,010	Non-ring-fenced Government Grants	166,258
34,806	Capital Grants and Contributions ( <i>note 27</i> )	22,986
<b>241,716</b>	<b>Total</b>	<b>258,062</b>



## 12. Group and Council Expenditure and Income Analysed by Nature

The Group and Council's expenditure and income is analysed as follows:

2019/20 £000	Expenditure and Income Analysis	2020/21 £000
	<b>Expenditure</b>	
168,255	Employee Expenses	171,071
189,042	Other Service Expenses	201,190
14,532	Depreciation, amortisation and impairment	50,058
15,411	Interest payments	16,200
724	Gain/(Loss) on the disposal of non-current assets	30
(286)	Share of operating results of associates	(4,144)
<b>387,678</b>	<b>Total Expenditure</b>	<b>434,405</b>
	<b>Income</b>	
(81,650)	Fees, Charges and Other Service Income	(70,697)
(889)	Interest and Investment Income	(751)
(46,380)	Income from council tax	(49,301)
(285,953)	Government Grants and Contributions	(309,374)
<b>(414,872)</b>	<b>Total Income</b>	<b>(430,123)</b>
<b>(27,194)</b>	<b>Total</b>	<b>4,282</b>

## 13. Property, Plant and Equipment

### Movements on Balances

Movements in 2020/21	Council Dwellings	Buildings	Land	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2020</b>	<b>415,856</b>	<b>403,917</b>	<b>16,431</b>	<b>35,789</b>	<b>75,867</b>	<b>7,753</b>	<b>37,779</b>	<b>3,012</b>	<b>996,404</b>
Additions	5,887	3,249	76	3,501	2,200	114	17,238	0	32,265
De-recognition - Disposals	(370)	(30)	(34)	(1,277)	0	0	0	0	(1,711)
Reclassification of Assets	10,396	12,704	(904)	(356)	0	334	(22,171)	(3)	0
Revaluation increases/(decreases) recognised in the CIES	(16,814)	(1,112)	(55)	0	0	(180)	0	(83)	(18,244)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(72)	62,915	1,609	0	0	183	0	(1,849)	62,786
Other Movements	0	0	(34)	0	0	0	0	0	(34)
<b>Balance at 31 March 2021</b>	<b>414,883</b>	<b>481,643</b>	<b>17,089</b>	<b>37,657</b>	<b>78,067</b>	<b>8,204</b>	<b>32,846</b>	<b>1,077</b>	<b>1,071,466</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>Balance at 1 April 2020</b>	<b>(8,109)</b>	<b>(26,287)</b>	<b>0</b>	<b>(25,571)</b>	<b>(44,682)</b>	<b>(134)</b>	<b>0</b>	<b>0</b>	<b>(104,783)</b>
Depreciation Charge	(10,153)	(16,399)	0	(2,874)	(3,823)	(69)	0	0	(33,318)
De-recognition - Disposals	352	11	0	1,182	0	0	0	0	1,545
Reclassification of Assets	0	0	0	143	0	(143)	0	0	0
Depreciation written out to the CIES	0	1,414	0	0	0	105	0	0	1,519
Depreciation written out to the Revaluation Reserve	0	26,962	0	0	0	71	0	0	27,033
<b>Balance at 31 March 2021</b>	<b>(17,910)</b>	<b>(14,299)</b>	<b>0</b>	<b>(27,120)</b>	<b>(48,505)</b>	<b>(170)</b>	<b>0</b>	<b>0</b>	<b>(108,004)</b>
<b>Net Book Value</b>									
<b>At 31 March 2021</b>	<b>396,973</b>	<b>467,344</b>	<b>17,089</b>	<b>10,537</b>	<b>29,562</b>	<b>8,034</b>	<b>32,846</b>	<b>1,077</b>	<b>963,462</b>
<b>At 31 March 2020</b>	<b>407,747</b>	<b>377,630</b>	<b>16,431</b>	<b>10,218</b>	<b>31,185</b>	<b>7,619</b>	<b>37,779</b>	<b>3,012</b>	<b>891,621</b>

<b>Movements in 2019/20</b>	<b>Council Dwellings</b>	<b>Buildings</b>	<b>Land</b>	<b>Vehicles, Plant and Equipment</b>	<b>Infrastructure Assets</b>	<b>Community Assets</b>	<b>Assets Under Construction</b>	<b>Surplus Assets</b>	<b>Total</b>
<b>Cost or Valuation</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 31 March 2019</b>	<b>379,936</b>	<b>353,445</b>	<b>12,007</b>	<b>32,888</b>	<b>70,856</b>	<b>8,072</b>	<b>16,455</b>	<b>2,204</b>	<b>875,863</b>
Adjustments			(736)					736	0
<b>Balance at 1 April 2019</b>	<b>379,936</b>	<b>353,445</b>	<b>11,271</b>	<b>32,888</b>	<b>70,856</b>	<b>8,072</b>	<b>16,455</b>	<b>2,940</b>	<b>875,863</b>
Additions	14,316	34,838	51	3,026	4,726	1	26,645	0	83,603
De-recognition - Disposals	0	0	(40)	(125)	0	0	(729)	0	(894)
Reclassification of Assets	4,172	(201)	(342)	0	285	243	(4,157)	(400)	(400)
Revaluation increases/(decreases) recognised in the CIES	17,944	(2,142)	2,284	0	0	(120)	0	(58)	17,908
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(512)	17,977	3,207	0	0	(443)	0	530	20,759
Other Movements	0	0	0	0	0	0	(436)	0	(436)
<b>Balance at 31 March 2020</b>	<b>415,856</b>	<b>403,917</b>	<b>16,431</b>	<b>35,789</b>	<b>75,867</b>	<b>7,753</b>	<b>37,779</b>	<b>3,012</b>	<b>996,404</b>
<b>Accumulated Depreciation and Impairment</b>									
<b>Balance at 1 April 2019</b>	<b>(2,192)</b>	<b>(30,044)</b>	<b>0</b>	<b>(22,745)</b>	<b>(41,193)</b>	<b>(187)</b>	<b>0</b>	<b>(138)</b>	<b>(96,499)</b>
Depreciation Charge	(8,906)	(17,566)	0	(2,921)	(3,489)	(139)	0	(46)	(33,067)
De-recognition - Disposals	0	0	0	95	0	0	0	0	95
Reclassification of Assets	0	0	0	0	0	0	0	0	0
Depreciation written out to the CIES	0	3,038	0	0	0	5	0	0	3,043
Depreciation written out to the Revaluation Reserve	2,989	18,285	0	0	0	188	0	184	21,646
<b>Balance at 31 March 2020</b>	<b>(8,109)</b>	<b>(26,287)</b>	<b>0</b>	<b>(25,571)</b>	<b>(44,682)</b>	<b>(134)</b>	<b>0</b>	<b>0</b>	<b>(104,783)</b>
<b>Net Book Value</b>									
<b>At 31 March 2020</b>	<b>407,747</b>	<b>377,630</b>	<b>16,431</b>	<b>10,218</b>	<b>31,185</b>	<b>7,619</b>	<b>37,779</b>	<b>3,012</b>	<b>891,621</b>
<b>At 31 March 2019</b>	<b>377,744</b>	<b>323,401</b>	<b>12,007</b>	<b>10,143</b>	<b>29,663</b>	<b>7,885</b>	<b>16,455</b>	<b>2,066</b>	<b>779,364</b>

### 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 30 years;
- Infrastructure – 5 to 10 years;
- Infrastructure – 15 years.

### Capital Commitments

As at 31 March 2021, the Council was contractually committed to capital works which amounted to £30.422 million (31 March 2020 £15.862 million).

The value of work completed at 31 March 2021 has been established using a stage of completion methodology based on Contract Administrator's Certificates obtained at year-end. The main capital contractual commitments in place at 31 March 2021 are as follows:

	Original Contractual Commitment	Outstanding at 31 March 2021
Capital Commitments	£000	£000
<b>Housing Revenue Account Programme</b>		
• Phase 3 New Social Housing: Site 53 Morris Road, Dalkeith	9,874	7,334
• Phase 3 New Social Housing: Site 116 Newmills Road, Dalkeith	12,935	12,766
• Phase 3 New Social Housing: Site 140 Dalhousie Mains Road, Bonnyrigg	9,715	9,042
Other non-material contracts	16,253	1,280
<b>Total Contractual Commitment</b>	<b>48,777</b>	<b>30,422</b>

### 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 2020/21 valuations were undertaken for Primary Schools, Secondary Schools, Open Spaces and Heritage Assets. The majority of the asset valuations were based on a depreciated replacement cost (DRC) basis and resulted in a net upwards revaluation of assets of £69.750 million. The revaluations we have received to support the values included in the 2020-21 financial statements, with the exception of those for the housing assets, contain a 'material valuation uncertainty' declaration, due to the current Covid-19 pandemic. This does not mean the valuation cannot be relied upon, but to be clear and transparent under RICS standards, it is protocol to include the uncertainty clause within all reports for 31 March valuations during the present crisis. More information is provided on this uncertainty in note 4 to the financial statements "major sources of estimation uncertainty".

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 valuer has determined in his professional opinion that, at 31 March 2021, there has been no material change in the assets not subject to revaluation in the year that would require an earlier revaluation. The Council has continued to assess the valuation of its asset base subsequent to the financial year-end as summarised in note 5 to these financial statements.

Market activity is being impacted in many sectors and at the valuation date, it is considered that less weight can be attached to previous market evidence for comparison purposes, to inform opinions of value. The current response to COVID-19 means that valuers are faced with an unprecedented set of circumstances on which to base a judgement and as such their valuations of non-housing assets are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, valuation of properties will be kept under frequent review.

#### 14. 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.

2019/20 £000	Heritage Assets Cost or Valuation Movement	2020/21 £000
86	<b>Net Carrying amount at 1 April</b>	82
(4)	Depreciation	(2)
0	Revaluations and Restatements	244
82	<b>Net Carrying amount at 31 March</b>	324

#### 15. 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:

2019/20 £000	Intangible Assets Movement in Balances	2020/21 £000
	<b>Balance at start of year:</b>	
2,536	Gross carrying amounts	2,547
(1,612)	Accumulated amortisation	(1,928)
924	<b>Net carrying amount at 1 April</b>	619
207	Additions - Purchases	246
(196)	Surrender of CRC Allowance	0
(316)	Amortisation for the year	(317)
619	<b>Net carrying amount at 31 March</b>	548
	<b>Comprising:</b>	
2,547	Gross carrying amounts	2,794
(1,928)	Accumulated amortisation	(2,246)
619	<b>Net carrying amount 31 March</b>	548

## 16. Long-Term Debtors

2019/20 £000	Long-Term Debtors	2020/21 £000
3,670	Prepayment to PPP Contractor	3,896
43	Pacific Shelf	47
<b>3,713</b>	<b>Total Long-Term Debtors</b>	<b>3,943</b>

## 17. Financial Instruments

### Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet:

#### Financial Assets

31 Mar 2020					31 Mar 2021			
Non-current	Current	Total			Non-current	Current	Total	
£000	£000	£000	Financial Assets	Category	£000	£000	£000	Note
0	24,682	24,682	Cash and Cash Equivalents	Amortised Cost	0	53,182	53,182	22
30,005	55,365	85,370	Short-term investments	Amortised Cost	60,449	14,993	75,442	See Below
0	15,900	15,900	Debtors	Amortised Cost	0	21,089	21,089	21
7,362	1	7,363	Long-term investments	Fair Value through Other Comprehensive income	5,823	1	5,824	See Below
<b>37,367</b>	<b>95,948</b>	<b>133,315</b>	<b>Total Financial Assets</b>		<b>66,272</b>	<b>89,265</b>	<b>155,537</b>	
3,713	6,207	9,920	Debtors not defined as financial instruments		3,943	8,171	12,114	16 & 21
<b>41,080</b>	<b>102,155</b>	<b>143,235</b>	<b>Total</b>		<b>70,215</b>	<b>97,436</b>	<b>167,651</b>	

The Short-term and Long-term investments on the balance sheet comprises:

31 Mar 2020				31 Mar 2021		
Long-term	Short-term	Total		Long-term	Short-term	Total
£000	£000	£000	Short-term Investments	£000	£000	£000
30,005	10,080	40,085	Other Local Authorities	60,449	0	60,449
0	45,285	45,285	Commercial Banks/Building Societies	0	14,993	14,993
<b>30,005</b>	<b>55,365</b>	<b>85,370</b>	<b>Total Short-term Investments</b>	<b>60,449</b>	<b>14,993</b>	<b>75,442</b>

**Financial Liabilities**

31 Mar 20					31 Mar 21			
Non-current	Current	Total			Non-current	Current	Total	
£000	£000	£000	Financial Liabilities	Category	£000	£000	£000	Note
260,427	11,441	271,868	Borrowings	Amortised Cost	273,893	3,700	277,593	See below
85,080	9,435	94,515	PPP Liability	Amortised Cost	82,729	2,714	85,443	32
14,638	593	15,231	Donated Asset Account Liability	Amortised Cost	13,186	574	13,760	32
0	17,353	17,353	Creditors	Amortised Cost	0	14,144	14,144	23
<b>360,145</b>	<b>38,822</b>	<b>398,967</b>	<b>Total Financial Liabilities</b>		<b>369,808</b>	<b>21,132</b>	<b>390,940</b>	
0	27,678	27,678	Creditors not defined as financial instruments		0	30,131	30,131	23
<b>360,145</b>	<b>66,500</b>	<b>426,645</b>	<b>Total</b>		<b>369,808</b>	<b>51,263</b>	<b>421,071</b>	

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 2020				31 Mar 2021		
Long-term	Short-term	Total		Long-term	Short-term	Total
£000	£000	£000	External Borrowings	£000	£000	£000
221,021	10,206	231,227	PWLB Loans	235,329	2,478	237,807
20,579	286	20,865	Lender Option/Borrower Option (LOBO) Loans	20,570	286	20,856
18,827	949	19,776	Loans from commercial lenders and other local authorities	17,994	936	18,930
<b>260,427</b>	<b>11,441</b>	<b>271,868</b>	<b>Total Borrowings</b>	<b>273,893</b>	<b>3,700</b>	<b>277,593</b>

\*This reflects the contractual period to maturity for these instruments given the unlikelihood of call within the next 12 months.

**Investments Designated at Fair Value through Other Comprehensive Income**

31 Mar 2020 £000	Non-Current Assets (Long-term)	31 Mar 2021 £000
7,036	Equity Shareholding in Lothian Buses (Level 2)	5,499
327	Subordinated Debt Subscription in Newbattle DBFMCo (Level 3)	325
<b>7,363</b>	<b>Total</b>	<b>5,824</b>

**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, this in line with the published results for the year ended 31

December 2020. The IAS 19 Pension Asset/Liability has now been removed from calculations due to its volatility. **Note 35** provides more detail on the potential guarantee liability associated with investment.

Year to 31 Dec 19 £000		Year to 31 Dec 20 £000
	<b>Profit/(Loss):</b>	
(7,386)	Profit before taxation	(11,844)
(647)	Taxation	(219)
<b>(8,033)</b>	<b>Profit/(Loss) after Tax</b>	<b>(12,063)</b>
	<b>Other Relevant Financial Information:</b>	
168,438	Revenue	131,431
0	Ordinary Dividend	0
(12,317)	Transfer to/(from) reserves	(58,620)
100,035	Equity attributable to equity holders (excluding IAS 19 Pension Asset/Liability)	100,535

### ***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.

Other entities and individuals includes an estimated provision for impairment. Individual balances are considered before a collective impairment for all remaining debtors based on their age profile. Impairment will apply to all outstanding debt at the balance sheet date for council tax, rents and all debts that are over six months past their payment date for sundry debtors.

### ***Income, Expenses, Gains and Losses***

Income, expenses, gains and losses associated with financial instruments are made up as follows:



2019/20	2019/20		2020/21	2020/21
Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure		Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
£000	£000		£000	£000
		<b>Net gains/losses on:</b>		
(674)	0	Investments in equity instruments designated at fair value through other comprehensive income	(1,537)	0
<b>(674)</b>	<b>0</b>	<b>Total net gains/losses</b>	<b>(1,537)</b>	
		<b>Interest Revenue:</b>		
0	999	Financial assets measured at amortised cost	0	1,270
0	52	Other financial assets measured at fair value through other comprehensive income	0	35
<b>0</b>	<b>1,051</b>	<b>Total Interest Revenue</b>	<b>0</b>	<b>1,305</b>
<b>0</b>	<b>8,753</b>	<b>Interest Expense</b>	<b>0</b>	<b>9,512</b>
		<b>Fee Expense:</b>		
0	102	Financial assets or financial liabilities that are not at fair value through profit and loss	0	98
<b>0</b>	<b>102</b>	<b>Total Fee Expense</b>	<b>0</b>	<b>98</b>

### *Fair Values of Assets and Liabilities*

Financial assets and financial liabilities are carried on the balance sheet at amortised cost. Their fair value is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

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

The rates quoted in this valuation were obtained by Link Asset Services, the Council's treasury management consultants, from the market on 31 March 2021.

Fair values have been calculated for all financial instruments in the portfolio using the following assumptions:

- The fair value of trade payables and other receivables is taken to be the carrying amount or billed amount;
- Interpolation techniques have been used between available rates where the exact maturity period was not available;
- The valuation of loans receivable is made by utilisation of the prevailing benchmark interest rates;
- The valuation of fixed term deposits (maturity investments) is made by comparison of the fixed term investment with a comparable investment with the same/similar lender for the remaining period of the deposit;
- Loans borrowed by the Council have been valued by discounting cash flows over the life of the loan at appropriate market rates.

The calculated fair values of financial liabilities and financial assets carried at amortised cost are as follows:

31 Mar 20				31 Mar 21		
Carrying Amount	Fair Value (New Loan Rate)	Fair Value (Premature Redemption Rate)		Carrying Amount	Fair Value (New Loan Rate)	Fair Value (Premature Redemption Rate)
£000	£000	£000	Financial Liabilities	£000	£000	£000
231,227	267,874	399,750	PWLB Loans (Level 2)	237,807	289,998	352,821
20,865	30,702	46,702	Lender Option/Borrower Option (LOBO) Loans (Level 2)	20,856	32,553	39,912
19,776	20,853	29,750	Loans from commercial lenders and other local authorities (Level 2)	18,930	20,619	24,188
17,353	17,353	17,353	Creditors	14,144	14,144	14,144
94,515	94,515	94,515	PFI and Finance Lease Liability	85,443	85,443	85,443
15,231	15,231	15,231	Donated Asset Account Liability	13,760	13,760	13,760
<b>398,967</b>	<b>446,528</b>	<b>603,301</b>	<b>Total Financial Liabilities</b>	<b>390,940</b>	<b>456,517</b>	<b>530,268</b>

The fair value is greater than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans in the market at balance sheet date. This represents a notional future loss attributable to a commitment to pay interest to lenders above market rates.

31 Mar 20			31 Mar 21	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000	Financial Assets	£000	£000
24,682	24,682	Cash and Cash Equivalents	53,182	53,182
85,369	86,092	Short-term Investments	75,442	76,710
15,900	15,900	Debtors	21,089	21,089
<b>125,951</b>	<b>126,674</b>	<b>Total Financial Assets</b>	<b>149,713</b>	<b>150,981</b>

The fair value of the financial assets is higher than the carrying amount because the authority's portfolio of investments includes a number of fixed rate deposits where the interest rate receivable is higher than the rates available for similar deposits at the balance sheet date. This shows a notional future gain (based on economic conditions at 31 March 2021) attributable to the commitment to receive interest above current market rates.

Short-term debtors and creditors are carried at cost as this is a fair approximation of their value.

## 18. 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;
- Refinancing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of 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 the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers.

The Treasury Management Strategy, which is set annually and is monitored throughout the year, sets out the limits on both duration and maximum levels of deposits. The lower an institution's creditworthiness the lower the maximum duration and level of deposit will be. These Counterparties are chosen, by officers, using credit 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 £0.003 million (2019/20 £0.007 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 – Excluding 2020 and 2021, there has been no default on the dividend payable to the Council over the period the Council has held this investment;
- 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.

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

2019/20 £000	Financial Assets	2020/21 £000
54,968	Less than 3 months	53,182
14,999	3 to 6 months	14,993
10,080	6 months to 1 year	0
30,005	More than 1 year	60,449
<b>110,052</b>	<b>Total Financial Assets</b>	<b>128,624</b>

### Liquidity Risk

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

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

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

2019/20 £000	Financial Liabilities	2020/21 £000
11,441	Less than 1 year	3,700
1,500	1 to 2 years	1,497
3,752	2 to 5 years	3,687
14,623	5 to 10 years	24,098
63,404	10 to 20 years	53,572
14,529	20 to 30 years	13,456
90,570	30 to 40 years	95,534
67,049	40 to 50 years	77,049
5,000	Greater than 50 years	5,000
<b>271,868</b>	<b>Total Financial Liabilities</b>	<b>277,593</b>

*Refinancing Risk*

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

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

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

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

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

*Market Risk***Interest Rate Risk**

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

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

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

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 2021, if interest rates had been 1% higher with all other values held constant, the financial effect would be:

2019/20 £000		2020/21 £000
	<b>Impact on Taxpayer and Rent Payers:</b>	
26	Increase on interest payable on variable rate borrowings	14
(869)	Increase on interest receivable on variable rate instruments	(1,331)
<b>(843)</b>	<b>Net effect on Comprehensive Income and Expenditure Statement</b>	<b>(1,317)</b>
	<b>Other presentational Changes:</b>	
(51,732)	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit in the Comprehensive Income and Expenditure Statement)	(58,853)

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 18** of the Financial Statements.

#### **Foreign Exchange Risk**

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

### 19. Assets Held for Sale

2019/20 £000	Assets Held For Sale	2020/21 £000
<b>5,543</b>	<b>Balance outstanding at 1 April</b>	<b>1,371</b>
400	Assets newly classified as held for sale	0
(759)	Revaluations and Restatements	33
20	Additions	0
(3,833)	Assets disposed of during the year	(150)
<b>1,371</b>	<b>Balance outstanding at 31 March</b>	<b>1,254</b>

## 20. Inventories

2019/20 £000	Inventories	2020/21 £000
868	Balance outstanding at 1 April	744
766	Purchases	612
(890)	Recognised as an expense in the year	(418)
744	<b>Total Inventories</b>	<b>938</b>

## 21. Short-Term Debtors

2019/20 £000	Short-Term Debtors	2020/21 £000
5,294	Central Government Bodies	5,321
59	Other Public Sector Bodies	26
	<b>Other Entities and Individuals (net of Impairment for bad debts)*:</b>	
9,203	Council Tax and Non-Domestic Rates	5,577
2,426	Rents	2,357
5,125	Other sundry debtors	15,979
22,107	<b>Total Short-Term Debtors</b>	<b>29,260</b>

\* 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 £37.145 million (2019/20 £22.751 million) and Rents of £1.780 million (2019/20 £1.6 million). For sundry debtors all debts that are over six months past their payment date impairment will be applied of £1.628 million (2019/20 £2.025 million).

## 22. Cash and Cash Equivalents

2019/20 £000	Cash and Cash Equivalents	2020/21 £000
238	Cash held by the Council	200
26,391	Short-term Deposits	56,287
(1,947)	Bank Current Accounts	(3,305)
24,682	<b>Total Cash and Cash Equivalents</b>	<b>53,182</b>

## 23. Creditors

2019/20 £000	Creditors	2020/21 £000
1,418	Central Government Bodies	868
2,075	Other Public Sector Bodies	8,421
41,538	Other Entities and Individuals	34,986
45,031	<b>Creditors</b>	<b>44,275</b>

## 24. Provisions

	Uninsured Losses (1)	Total
	£000	£000
<b>Balance at 1 April 2020</b>	<b>836</b>	<b>836</b>
New provisions made during the year	439	439
Increase/(decrease) to existing insurance provisions during the year	52	52
Amounts used during the year	(604)	(604)
<b>Balance at 31 March 2021</b>	<b>723</b>	<b>723</b>

Notes:

- (1) This relates to potential uninsured losses arising from insurance claims made against the Council.

## 25. Usable Reserves

Movements in the Council's usable reserves are detailed in the Movement in Reserves Statement.

## 26. Unusable Reserves

2019/20 £000	Unusable Reserves	2020/21 £000
(142,443)	Revaluation Reserve	(224,283)
(359,447)	Capital Adjustment Account	(352,279)
97,719	Pensions Reserve	141,030
7,145	Accumulated Absences Account	8,986
1,997	Financial Instruments Adjustment Account	1,829
(6,686)	Financial Instruments Revaluation Reserve	(5,149)
<b>(401,715)</b>	<b>Total Unusable Reserves</b>	<b>(429,866)</b>

### *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 1<sup>st</sup> April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.



2019/20 £000	Revaluation Reserve		2020/21 £000
(143,590)	Balance at 31 March		(142,443)
35,521	Adjustments to Opening Balance		
<b>(108,069)</b>	<b>Revised Balance at 1 April</b>		<b>(142,443)</b>
(44,001)	(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		(90,138)
7,166	Difference between fair value depreciation and historical cost depreciation	8,123	
2,461	Accumulated (gains)/losses on assets sold	175	
<b>9,627</b>	<b>Amount written off to the Capital Adjustment Account</b>		<b>8,298</b>
<b>(142,443)</b>	<b>Balance at 31 March</b>		<b>(224,283)</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. 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 also contains revaluation gains accumulated on property, plant and equipment before the 1<sup>st</sup> 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.

2019/20 £000	Capital Adjustment Account		2020/21 £000
(285,364)	Balance at 31 March		(359,447)
(35,521)	Adjustments to Opening Balance		0
<b>(320,885)</b>	<b>Revised Balance at 1 April</b>		<b>(359,447)</b>
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
33,071	• Charges for depreciation and impairment on non-current assets	33,321	
(18,856)	• Revaluation movements on property, plant and equipment	16,767	
316	• Amortisation of intangible assets	317	
592	• Revenue expenditure funded from capital under statute	0	
4,632	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	317	
19,755			50,722
(9,627)	Adjusting amounts written out of the Revaluation Reserve		(8,297)
<b>10,128</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>42,425</b>
	Capital financing applied in the year:		
(3,909)	• Use of capital receipts to finance new capital expenditure	(287)	
(40,981)	• Capital grants and contributions credited to the CIES that have been applied to capital financing	(21,780)	
(11,158)	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(11,611)	
7,632	• Capital Receipts transferred to Capital Fund	(1,206)	
<b>(48,416)</b>			<b>(34,884)</b>
(274)	Other movements		(373)
<b>(359,447)</b>	<b>Balance at 31 March</b>		<b>(352,279)</b>

*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 debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and resources the Council has set aside to meet them. Statutory arrangements will ensure that funding will have been set aside by the time benefits come to be paid.

<b>2019/20 £000</b>	<b>Pensions Reserve</b>	<b>2020/21 £000</b>
124,359	Balance at 1 April	97,719
(42,897)	Re-measurements of the net defined benefit liability/(asset)	31,746
31,997	Reversal of items relating to net changes for retirement benefits charged to Surplus or Deficit on the Provision of Services in the CIES	27,807
(15,740)	Employers' pension contributions	(16,242)
<b>97,719</b>	<b>Balance at 31 March</b>	<b>141,030</b>

*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.

<b>2019/20 £000</b>	<b>Accumulated Absences Account</b>		<b>2020/21 £000</b>
<b>5,633</b>	<b>Balance at 1 April</b>		<b>7,145</b>
(5,633)	Settlement or cancellation of accrual made at the end of the preceding year	(7,145)	
7,145	Amounts accrued at the end of the current year	8,986	
1,512	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		1,841
<b>7,145</b>	<b>Balance at 31 March</b>		<b>8,986</b>

*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.

<b>2019/20 £000</b>	<b>Financial Instruments Adjustment Account</b>	<b>2020/21 £000</b>
2,165	Balance at 1 April	1,997
(159)	Premiums incurred in the year charged to the CIES	(159)
(9)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in year in accordance with statutory requirements	(9)
<b>1,997</b>	<b>Balance at 31 March</b>	<b>1,829</b>

#### *Financial Instruments Revaluation Reserve*

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

<b>2019/20 £000</b>	<b>Financial Instruments Revaluation Reserve</b>	<b>2020/21 £000</b>
(7,743)	Balance at 1 April	(6,686)
1,057	(Upward)/Downward Revaluation of Investments	1,537
<b>(6,686)</b>	<b>Balance at 31 March</b>	<b>(5,149)</b>

## 27. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21.

2019/20 £000	Grant Income	2020/21 £000
	<b>Credited to Taxation and Non-Specific Grant Income and Expenditure:</b>	
10,289	General Capital Grant	6,957
10,252	Affordable Housing Supply Programme	9,044
10,479	Developer Contributions	3,421
1,067	General Capital Grant – Early Years Childcare	2,849
740	Low Emission Zone Grant	0
1,979	Other Capital Grants and Contributions	715
<b>34,806</b>	<b>Total</b>	<b>22,986</b>
	<b>Credited to Services:</b>	
21,387	Housing Benefit Subsidy	20,868
0	Early Years Expansion Grant	11,725
2,444	Unitary Charge Funding	2,428
2,253	Pupil Equity Funding	2,210
1,341	Community Justice Grant	1,420
0	Education COVID Support Grant	1,175
1,073	LEADER Programme	575
0	Young Persons Guarantee	520
0	Energy Efficient Scotland	509
884	Regenerating Rosewell Project	0
0	Track 2 Train	0
2,107	Other Entities and Individuals	3,457
<b>31,489</b>	<b>Total</b>	<b>44,887</b>

## 28. Capital Grants Received in Advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the grantor. The balances at year-end are as follows:

2019/20 £000	Capital Grants Received in Advance		2020/21 £000
31,040	Balance at 1 April		33,927
	<b>New capital grants received in advance, conditions of use not met:</b>		
6,300	• Scottish Government Early Years Grant	4,300	
699	• Scottish Government Town Centre Capital Fund	311	
7,806	• Section 75 contributions from private developers	5,617	
(4)	• Other Grants Received in Advance	36	
14,800			10,264
(11,913)	Amounts realised to CIES, conditions of use met		(5,528)
<b>33,927</b>	<b>Balance at 31 March</b>		<b>38,663</b>

## 29. External Audit Costs

The estimated fee payable to Audit Scotland in respect of the work carried out for audit services is £0.261 million (2019/20 £0.277 million). This includes external audit services carried out by the appointed auditor, Ernst and Young LLP. Where further additional work is required, fees will be agreed with management and reported to the Audit Committee.

## 30. Related Parties

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

### **The Scottish Government**

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

### **Officers**

There are no related party transactions with officers of the Council.

### **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 2020/21 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 2020/21 were declared by nine members:

- With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.559 million.
- With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.420 million.

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

### **Entities Controlled or Significantly Influenced by the Council**

During the year the Council entered into material transactions with the Lothian Valuation Board. This amounted to £0.567 million (2019/20 £0.549 million). There was no balance due to or from the Lothian Valuation Board as at 31 March 2021.

The Council has a number of joint working arrangements with other local authorities. In 2020/21 payments of £1.755 million were made to other local authorities and income of £0.533 million was received from other local authorities.

The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.903 million of resource transfer funding to the Council in 2020/21 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, £1.524 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

The Council delegated resources totalling £44.985 million to the Midlothian Integration Joint Board in 2020/21. 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 2021 the Council held £7.367million on behalf of the Board.

### 31. 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.

2019/20 £000	Capital Expenditure and Capital Financing		2020/21 £000
359,774	Opening Capital Financing Requirement		394,261
	<b>Capital Investment:</b>		
55,745	Property, Plant and Equipment	32,964	
168	Intangible Assets	246	
27,743	Long-term liabilities	0	
592	Revenue expenditure funded from capital under statute	0	
<b>84,248</b>	<b>Total Capital Investment</b>		<b>33,210</b>
	<b>Sources of Finance:</b>		
(487)	Capital Receipts	(975)	
(22,916)	Government Grants	(19,632)	
(14,632)	Contributions from other bodies	(3,603)	
(11,726)	Loans fund and lease repayments	(18,101)	
<b>(49,761)</b>	<b>Total Sources of Finance</b>		<b>(42,311)</b>
<b>34,487</b>	<b>Increase/(decrease) in Capital Financing Requirement</b>		<b>(9,101)</b>
<b>394,261</b>	<b>Closing Capital Financing Requirement</b>		<b>385,160</b>

### 32. 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 25<sup>th</sup> 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 40<sup>th</sup> 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.

The value of assets held under such arrangement at 31 March 2021 are as follows:

<b>2019/20 £000</b>	<b>Value of Assets</b>	<b>2020/21 £000</b>
99,584	Balance at 1 April	143,308
(3,534)	Depreciation	(2,560)
4,038	Written Back Depreciation on Revaluation	4,240
15,026	Revaluation	27,324
28,194	Additions	356
<b>143,308</b>	<b>Balance at 31 March</b>	<b>172,668</b>

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.

There is a donated asset account at 31 March 2021 for the financing of the Millerhill Residual Waste asset of £13.760 million (2019/20 £15.230 million). The recognition of donated asset income will be on a flat line basis over the remaining 25 years of the contract.

There is a deferred liability at 31 March 2021 for the financing of these assets of £85.443 million (2019/20 £95.267 million), with the movement including the payment of the capital contribution for the Millerhill Facility of £7.380 million.

During the year a total of £10.856 million (2019/20 £3.096 million) was paid in relation to finance lease deferred liabilities under such contracts. Details of future payments to be made under arrangements are:

	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000
<b>Dalkeith Schools Campus</b>				
Within 1 Year	919	2,008	2,126	5,053
Within 2 to 5 Years	4,659	7,048	9,050	20,757
Within 6 to 10 Years	8,858	5,776	12,645	27,279
Within 11 to 15 Years	6,282	1,131	7,035	14,448
<b>Total Remaining Contract</b>	<b>20,718</b>	<b>15,963</b>	<b>30,856</b>	<b>67,537</b>

	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000
<b>Midlothian Primary Schools</b>				
Within 1 Year	929	2,040	2,114	5,083
Within 2 to 5 Years	4,444	7,430	8,999	20,873
Within 6 to 10 Years	7,640	7,202	12,574	27,416
Within 11 to 15 Years	10,863	3,979	14,226	29,068
Within 16 to 20 Years	4,089	402	4,674	9,165
<b>Total Remaining Contract</b>	<b>27,965</b>	<b>21,053</b>	<b>42,587</b>	<b>91,605</b>

	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000
<b>Newbattle Community Campus</b>				
Within 1 Year	808	1,602	127	2,537
Within 2 to 5 Years	3,662	5,978	542	10,182
Within 6 to 10 Years	5,720	6,329	758	12,807
Within 11 to 15 Years	7,321	4,729	857	12,907
Within 16 to 20 Years	9,369	2,681	970	13,020
Within 21 to 25 Years	4,797	378	455	5,630
<b>Total Remaining Contract</b>	<b>31,677</b>	<b>21,697</b>	<b>3,709</b>	<b>57,083</b>

	Donated Asset	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000	£000
<b>Millerhill Residual Waste</b>					
Within 1 Year	574	58	955	1,026	2,613
Within 2 to 5 Years	2,293	215	3,717	4,457	10,682
Within 6 to 10 Years	2,867	298	4,422	6,343	13,930
Within 11 to 15 Years	2,867	757	3,987	7,040	14,651
Within 16 to 20 Years	2,867	1,695	2,918	7,985	15,465
Within 21 to 25 Years	2,292	2,060	747	5,454	10,553
<b>Total Remaining Contract</b>	<b>13,760</b>	<b>5,083</b>	<b>16,746</b>	<b>32,305</b>	<b>67,894</b>



### 33. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the authority are members of this Scottish Teachers Superannuation scheme which is 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 the 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 2020/21 the Council paid £9.936 million (2019/20 £8.463 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 23% for 2020/21 (2019/20 1 Apr -31 Aug 2019 17.2%, 1 Sep 19 – 31 Mar 20 23%).

The authority 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 34**).

### 34. Defined Benefit Pension Schemes

As part of the terms and conditions of employment and its officers, the authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments (for those benefits) and to disclose at the time the 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 authority 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), changed 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 HRA the amounts required by statute as described in the accounting policies note.8

#### *Transactions Relating to Post-Employment Benefits*

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are actually 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 HRA via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement.

2019/20 £000	Comprehensive Income and Expenditure Statement	2020/21 £000
	<b>Cost of services:</b>	
28,714	Current service cost	25,383
142	Past service cost (including curtailments)	72
	<b>Financing and Investment Income and Expenditure:</b>	
16,294	Interest cost	14,524
	<b>Other Post Employment Benefit charged to the CIES:</b>	
(13,153)	Expected Return on Scheme Assets	(12,172)
<b>31,997</b>	<b>Total Net Charged to the Surplus or Deficit on the Provision of Services</b>	<b>27,807</b>
	<b>Other post-employment Benefits Charged to Other Comprehensive Income and Expenditure</b>	
(42,897)	Re-measurement of the net defined liability	31,746
<b>(10,900)</b>	<b>Total post-employment benefits charged to the CIES</b>	<b>59,553</b>
	<b>Movement in Reserves Statement</b>	
10,900	Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code	(59,553)
15,740	Employers Contributions payable to the scheme	16,242
<b>26,640</b>	<b>Total Charged to the Movement in Reserves</b>	<b>(43,311)</b>

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

2019/20 £000	Pensions Assets and Liabilities Recognised in the Balance Sheet	2020/21 £000
(625,441)	Present value of the defined benefit obligation	(747,208)
527,722	Fair value of Plan Assets	606,178
<b>(97,719)</b>	<b>Net liability arising from defined benefit obligation</b>	<b>(141,030)</b>

2019/20 £000	Reconciliation of the present value of the scheme liabilities (defined benefit obligation)	2020/21 £000
<b>669,772</b>	<b>Opening Balance at 1 April</b>	<b>625,441</b>
28,714	Current service cost	25,383
16,294	Interest Cost	14,524
3,960	Contributions by Scheme Participants	4,112
(78,992)	Actuarial (gains)/losses	94,244
142	Past service cost (including curtailments)	72
(801)	Estimated Unfunded Benefits Paid	(770)
(13,648)	Estimated Benefits Paid	(15,798)
<b>625,441</b>	<b>Closing Balance at 31 March</b>	<b>747,208</b>

2019/20 £000	Reconciliation of the movements in the fair value of scheme assets	2020/21 £000
<b>545,413</b>	<b>Opening Balance at 1 April</b>	<b>527,722</b>
13,153	Expected Return on Assets	12,172
3,960	Contributions by Scheme Participants	4,112
14,939	Contributions by the Employer	15,472
801	Contributions in respect of Unfunded Benefits	770
(36,095)	Actuarial gains/(losses)	62,498
(801)	Unfunded Benefits Paid	(770)
(13,648)	Benefits Paid	(15,798)
<b>527,722</b>	<b>Closing Balance at 31 March</b>	<b>606,178</b>

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 2021 the liability for Pensions sits at £8.125 million (2019/20 £6.113 million). As a consequence the Council has additional liabilities arising from the pension deficit 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 pension fund liabilities have been assessed by the actuary and are based on the latest full valuation of the scheme as at 31 March 2021.

The main assumptions used by the actuary have been:

2019/20	Mortality Assumptions	2020/21
	Longevity at 65 for Current Pensioners:	
21.7	- Men (Years)	20.5
24.3	- Women (Years)	23.3
	Longevity at 65 for Future Pensioners:	
24.7	- Men (Years)	21.9
27.5	- Women (Years)	25.2
	<b>Financial Assumptions</b>	
1.9%	Rate of Inflation/increase in pensions	2.85%
3.5%	Rate of increase in salaries	3.35%
2.3%	Rate for discounting scheme liabilities	2.0%
-4.2%	Expected Rate on Investment Returns	16.4%

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 reasonably 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 the previous period.

Pension Sensitivities at 31 March 21	Approximate % increase to the Employer Obligation	Approximate monetary amount £000
0.5% decrease Real Discount Rate	10%	76,394
0.5% increase in the Salary Increase Rate	1%	7,869
0.5 % increase in the Pension Increase Rate (CPI)	9%	66,890

#### Local Government Pension Scheme Assets Comprised

2019/20 Fair Value of Scheme Assets	2019/20 Percentage of Total Assets		Quoted prices in active markets	2020/21 Quoted prices not in active markets	Total Fair Value of Scheme Assets	2020/21 Percentage of Total Assets
£000		Pension Fund Assets	£000	£000	£000	
51,090	10%	Cash and Cash Equivalents	62,016	0	62,016	10%
		<b>Equity Instruments:</b>				
50,296	10%	Consumer	78,822	0	78,822	13%
76,110	14%	Manufacturing	87,406	0	87,406	14%
33,658	6%	Energy and Utilities	30,882	0	30,882	5%
34,322	7%	Financial Institutions	37,154	0	37,154	6%
36,518	7%	Health and Care	37,875	0	37,875	6%
22,811	4%	Information Technology	28,726	0	28,726	5%
38,528	7%	Other	48,128	0	48,128	8%
<b>292,243</b>	<b>55%</b>	<b>Sub-total Equity</b>	<b>348,993</b>	<b>0</b>	<b>348,993</b>	<b>57%</b>
		<b>Bonds:</b>				
28,261	5%	Corporate	0	20,677	20,677	4%
32,488	6%	Government	48,633	0	48,633	8%
<b>60,749</b>	<b>11%</b>	<b>Sub-total bonds</b>	<b>48,633</b>	<b>20,677</b>	<b>69,310</b>	<b>12%</b>
		<b>Property:</b>				
34,580	7%	UK	0	31,613	31,613	5%
465	0	Overseas	0	71	71	0%
<b>35,045</b>	<b>7%</b>	<b>Sub-total Property</b>	<b>0</b>	<b>31,684</b>	<b>31,684</b>	<b>5%</b>
		<b>Investment Trusts and Unit Trusts:</b>				
6,461	1%	Equities	8,566	0	8,566	1%
2,265	0%	Bonds	12,476	0	12,476	2%
74,200	14%	Infrastructure	0	69,389	69,389	12%
<b>82,926</b>	<b>15%</b>	<b>Sub-total Trusts</b>	<b>21,042</b>	<b>69,389</b>	<b>90,431</b>	<b>15%</b>
4,592	1%	Private Equity (all)	0	3,712	3,712	1%
1,077	0%	Derivatives: Forward Foreign Exchange Contracts	32	0	32	0%
<b>527,722</b>	<b>100%</b>	<b>Total Assets</b>	<b>480,716</b>	<b>125,462</b>	<b>606,178</b>	<b>100%</b>

#### 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 rate of 100% of the overall liabilities of the fund in the longer term. Funding levels are monitored on an annual basis. The most recent triennial valuation was completed during 2020/21. The Fund's actuary reported that, at 31 March 2020, the funding level was at 104% and a period of 20 years had been adopted in assessing the level of contribution required. Employer's contributions in 2021/22 to 2023/24 are unchanged from 2020/21 and

these are reflected in the Council's Medium Term Financial Strategy. The Council anticipates to pay £15.313 million in contributions to the scheme to 31 March 2022.

#### *Projected Defined Benefit Cost*

Analysis of projected amount to be charged to Operating Profit	Assets	Obligations	Net Liability/(Asset)	% of Pay
Period ended 31 March 2022	£000	£000	£000	
Projected Current Service Cost	0	35,899	(35,899)	(52.0)
Past Service Cost (including curtailments)	0	0	0	0
Effect of Settlements	0	0	0	0
<b>Total Service Cost</b>	<b>0</b>	<b>35,899</b>	<b>(35,899)</b>	<b>(52.0)</b>
Interest Income on Plan Assets	12,161	0	12,161	17.6
Interest Cost on Defined Benefit Obligation	0	15,179	(15,179)	(22.0)
<b>Total Net Interest Cost</b>	<b>12,161</b>	<b>15,179</b>	<b>(3,018)</b>	<b>(4.4)</b>
<b>Total Included in Profit and Loss</b>	<b>12,161</b>	<b>51,078</b>	<b>(38,917)</b>	<b>(56.4)</b>

### 35. Contingent Liabilities

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

The 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 act 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.

### 36. Contingent Assets

The Council has sought reimbursement from HMRC of VAT accounted for on sport and leisure charges on the basis they should be treated as non-business. The claims, which date back to 1981 proceeded to a First Tier Tax Tribunal (FTT) on 23-26 September 2019 which considered three lead claims covering Northern Ireland (Mid Ulster), England and Wales (Chelmsford) and Scotland (Midlothian). The decision of the tribunal for Midlothian was released on 17 October 2020 and found in favour of Midlothian in respect of the question of the provision of leisure services being under a special legal regime. As such they could be treated as exempt or non-business which would mean VAT would not be accounted for on the charges. However the FTT did not consider the distortion of competition issue for Midlothian, with both parties content that this would then be determined after the principal issues were considered by the FTT.

The expectation was that the question of distortion of competition would need to return to FTT for consideration if additional evidence was required or proceed straight to an Upper Tier Tribunal for

consideration. The current position with these claims is that HMRC have advised, on a without prejudice basis, that they do not wish to appeal the FTT decision unless there are any objections raised by commercial operators in Scotland about the preferential VAT treatment which is to be afforded to local authorities as a consequence of the decision.

In accordance with the accounting code of practice, which adopts International Accounting Standard (IAS) 37- Provisions, Contingent Liabilities and Contingent Assets, with no amendment, the claims are at this time considered to represent a contingent asset in that the flow of economic benefits is only probable. IAS 37 is clear that only where the realisation of income is virtually certain that the related asset is not a contingent asset and its recognition is appropriate.

### 37. Agency Covid Business Grants

During the financial year, the Council undertook the administration of several Covid-19 related business grants on behalf of the Scottish Government, on an agency basis, with those associated with non-domestic rates administered on the Council's behalf by The City of Edinburgh Council.

During the year grant payments administered by The City of Edinburgh Council totalled £19.3 million (2019/20 nil) with those paid directly by the Council totalling £0.853 million (2019/20 nil). These Grants were funded by agency income received from the Scottish Government.

### 38. 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:

2019/20 £000	Trusts, Bequests, Common Good and Community Funds	2020/21 £000
12	Dalkeith Common Good Fund	7
2	Penicuik Common Good Fund	2
51	Community Mining Funds	51
22	Other Funds	23
<b>87</b>	<b>Total</b>	<b>83</b>

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

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

### 39. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2020/21 (The Code) requires Local Authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

*Valuation of Property, Plant and Equipment*

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

*Depreciation*

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

*Goodwill*

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

*Basis of Consolidation*

Subsidiaries are consolidated on a line-by-line basis. All other entities are accounted for under the accounting conventions of the “acquisition basis” using the equity method – the Council’s share of the entities results and its share of other gains and losses (recognised in the Group CIES). All entities have the same reporting date as the Council.

*Restrictions on 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:

	Percentage Share in Entity	Share of Assets	Share of Liabilities	Net Share of Assets	Share of Revenues	Share of (Profit)/Loss
		£000	£000	£000	£000	£000
<b>Subsidiaries:</b>						
Trusts, Bequests, Common Good and Community Funds	100%	84	(84)	0	(3)	3
Pacific Shelf 826 Ltd	100%	0	(44)	(44)	0	3
Midlothian Energy Limited	50%	0	0	0	0	0
		<b>84</b>	<b>(128)</b>	<b>(44)</b>	<b>(3)</b>	<b>6</b>
<b>Associates:</b>						
Lothian Valuation Joint Board	9%	214	(840)	(626)	(1,754)	166
Midlothian Integration Joint Board	50%	6,497	0	6,497	(78,501)	(4,186)
		<b>6,711</b>	<b>(840)</b>	<b>5,871</b>	<b>(80,255)</b>	<b>(4,020)</b>
		<b>6,795</b>	<b>(968)</b>	<b>5,827</b>	<b>(80,258)</b>	<b>(4,014)</b>

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
<b>Subsidiaries:</b>		
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
Midlothian Energy Limited	Energy generation, distribution and supply	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith
<b>Associates:</b>		
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
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

#### *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. Net assets at 31 March 2021 were £ (0.133) million, which would equate to a share of £ (0.003) million for Midlothian.



## 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.

2019/20 £000	HRA Income and Expenditure Statement		2020/21 £000
	<b>Expenditure</b>		
6,257	Repairs and Maintenance	5,005	
5,245	Supervision and Management	5,297	
(9,063)	Depreciation, impairment and revaluation non-current assets	26,954	
(50)	Movement in the allowance for bad debtors	180	
3,023	Other Expenditure	1,936	
<b>5,412</b>	<b>Total Expenditure</b>		<b>39,372</b>
	<b>Income:</b>		
(28,631)	Gross Dwelling Rents	(29,123)	
(360)	Non-dwelling Rents	(345)	
(837)	Service Charge Income	(314)	
(37)	Other Income	2	
<b>(29,865)</b>	<b>Total Income</b>		<b>(29,780)</b>
<b>(24,453)</b>	<b>Net Expenditure or Income of HRA services as included in the Comprehensive Income and Expenditure Statement</b>		<b>9,592</b>
250	HRA Share of Corporate and Democratic Core		250
<b>(24,203)</b>	<b>Net Income/expenditure for HRA Services</b>		<b>9,842</b>
	<b>HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:</b>		
724	(Gain) or Loss on sale of HRA non-current assets	19	
6,028	Interest payable and similar charges	6,633	
(553)	Interest and investment income	(420)	
122	Net interest on the net defined liability benefit liability (asset)	91	
<b>6,321</b>			<b>6,323</b>
<b>(17,882)</b>	<b>(Surplus)/Deficit for the year on HRA Services</b>		<b>16,165</b>

**Movement in the Housing Revenue Account**

2019/20 £000	Movement on the HRA Statement		2020/21 £000
(39,084)	<b>Balance on the HRA at the end of the previous reporting period</b>		<b>(44,395)</b>
(17,882)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		16,165
	<b>Adjustments between accounting basis and funding basis under statute:</b>		
9,063	Depreciation, impairment and revaluation non-current assets	(26,954)	
(724)	Gain or (Loss) on sale of HRA non-current assets	(19)	
4,899	Loans Fund Principal	5,447	
0	Appropriation to General Fund Reserve	1,858	
(667)	Net charges made for retirement benefits in accordance with IAS 19	(487)	
12,571	Total Adjustments between accounting basis and funding basis under statute		(20,155)
(5,311)	<b>(Increase) or Decrease in year on the HRA</b>		<b>(3,990)</b>
(44,395)	<b>Balance on the HRA at the end of the current reporting period</b>		<b>(48,385)</b>

**Notes to the Housing Revenue Account****Housing Stock**

The number of council dwellings for the year can be analysed as follows:

2019/20	Housing Stock	2020/21
908	1 Bedroom	944
3,838	2 Bedroom	3,936
1,852	3 Bedroom	1,878
311	4 Bedroom	316
10	5/6 Bedroom	10
6,919	<b>Total Housing Stock at 31 March</b>	<b>7,084</b>

This represents an increase in the year of 165 (2019/20 73) of which 119 were new build completions, 14 were the market purchase of existing properties and 32 due to repurposing of properties to create additional temporary accommodation provision.

**Other Information**

2019/20 £000	Other Information	2020/21 £000
3,907	Total Rent Arrears	4,045
1,600	Bad Debt Provision	1,780
652	Void Rent Loss (netted against rental income)	881

## 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 authority.

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.

2019/20 £000	Council Tax Income Account	2020/21 £000
58,547	Gross Council Tax levied and Contributions in Lieu	62,373
	Less:	
(4,810)	Council Tax Reduction Scheme	(5,257)
(5,855)	Other Discounts and Reductions	(6,321)
(1,573)	Write-off of Uncollectable Debts and Allowances for impairment	(1,674)
71	Prior year adjustments	180
46,380	Net Council Tax Income transferred to General Fund	49,301

### Midlothian Council Tax Charge and Properties per Band

2019/20 Property Numbers	2019/20 £ per Property	Band	2020/21 Property Numbers	2020/21 £ per Property
2	747	A - Disabled	2	783
575	896	A	568	939
8,322	1,045	B	8,269	1,096
8,475	1,195	C	8,454	1,252
4,891	1,344	D	4,943	1,409
4,486	1,766	E	4,581	1,851
3,552	2,184	F	3,729	2,290
2,271	2,632	G	2,357	2,759
169	3,293	H	170	3,452
32,743			33,073	

## Calculation of the Council Tax Base (shown as numbers of properties)

2020/21	A (Disabled)	A	B	C	D	E	F	G	H	Total No of Properties
Number of Properties	0	975	12,592	11,078	5,698	5,149	3,962	2,502	176	42,132
Properties subject to Empty Homes Premium	0	11	38	34	16	12	9	5	3	128
Properties subject to Disabled Relief	2	37	42	(49)	1	(1)	(7)	(24)	(1)	0
<b>Less:</b>										
Exempt Properties	0	68	507	279	85	185	50	34	4	1,212
Properties Entitled to 25% Discounts	0	150	1,484	952	425	268	131	64	4	3,478
Properties Entitled to 50% Discounts	0	1	4	5	1	2	2	2	0	17
Properties Entitled to Other Discounts	0	4	18	15	7	5	3	1	0	53
Reduction in Tax Base due to Council Tax Reduction	0	232	2,390	1,358	254	119	49	25	0	4,427
<b>Total Equivalent Properties 2020/21</b>	<b>2</b>	<b>568</b>	<b>8,269</b>	<b>8,454</b>	<b>4,943</b>	<b>4,581</b>	<b>3,729</b>	<b>2,357</b>	<b>170</b>	<b>33,073</b>
Ratio to Band D	<b>0.56</b>	<b>0.67</b>	<b>0.78</b>	<b>0.89</b>	<b>1.00</b>	<b>1.31</b>	<b>1.63</b>	<b>1.96</b>	<b>2.45</b>	
<b>Band D Equivalent Properties</b>	<b>1</b>	<b>379</b>	<b>6,431</b>	<b>7,515</b>	<b>4,943</b>	<b>6,020</b>	<b>6,059</b>	<b>4,616</b>	<b>417</b>	<b>36,381</b>
Contributions in Lieu - Band D Equivalents										193
<b>Sub-total</b>										<b>36,574</b>
Less Bad Debt Provision at 3%										<b>(1,188)</b>
<b>Total Council Tax Base</b>										<b>35,386</b>

2019/20	A (Disabled)	A	B	C	D	E	F	G	H	Total No of Properties
<b>Band D Equivalent Properties</b>	<b>1</b>	<b>383</b>	<b>6,473</b>	<b>7,533</b>	<b>4,891</b>	<b>5,894</b>	<b>5,771</b>	<b>4,448</b>	<b>413</b>	<b>35,808</b>
Contributions in Lieu - Band D Equivalents										197
<b>Sub-total</b>										<b>36,005</b>
Less Bad Debt Provision at 3%										<b>(1,171)</b>
<b>Total Council Tax Base</b>										<b>34,834</b>

## 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.

2019/20 £000	Non-Domestic Rate Income Account	2020/21 £000
43,428	Gross Council Tax levied and Contributions in Lieu	44,705
	Less:	
(10,306)	Reliefs and other deductions	(25,375)
(606)	Write-off of Uncollectable Debts and Allowances for impairment	(353)
32,516	Net Non-Domestic Rates Income	18,977
(768)	Prior year adjustments	(2,002)
(176)	Non-domestic rates income retained by the authority (BRIS)	0
31,572	Contribution to Non-Domestic Rate Pool	16,975
	Allocated:	
31,667	Contribution to non-domestic rate pool	17,045
(95)	Council Rate Income - non-pool	(70)
31,572		16,975
31,615	Amount distributed to Midlothian Council from non-domestic rate pool	19,587

The Business Rate Incentivisation Scheme (BRIS) permits the authority 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 (2019/20 49p) per £, where the rateable value was less than £51,000 (2019/20 £29,000), 51.1p where the rateable value is between £51,000 and £95,000 and 52.4p (2019/20 51.6p) per £ where the rateable value exceeded 95,000 (2019/20) £51,000.

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

2019/20 Numbers	2019/20 £000	Analysis of Rateable Values and Number of Premises	2020/21 Numbers	2020/21 £000
1,864	48,911	Shops, Offices and Other Commercial Subjects	1,838	49,245
939	17,207	Industrial and Freight Transport	937	16,921
300	21,334	Miscellaneous (Schools etc.)	308	21,153
3,103	87,452	Total	3,083	87,319

## 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 utilising 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 very 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 and supplies and services. It also includes the costs of the repayment of loans used to finance capital expenditure.



**Follow-Up Review of Completed Internal Audit Recommendations****Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Note the results of the spot check on Internal Audit recommendations that have been marked as completed by Management in the period April 2020 to March 2021 to improve internal controls and governance, and mitigate risks; and
- b) Considers whether it is satisfied with the outcomes or whether any further action is required.

**2 Purpose of Report/Executive Summary**

The purpose of this report is to provide an update to members of the Audit Committee on the results of the Internal Audit Follow-up Review which included a sample check on the adequacy of new internal controls for Internal Audit Recommendations marked as completed by Management in the period April 2020 to March 2021.

Internal Audit 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.

The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.

The Remit of the Audit Committee includes “To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions”, as part of its high level oversight of the Council’s governance, risk management and control framework.

**Date 2 September 2021**

**Report Contact:**

Jill Stacey                      Tel No  
[jill.stacey@midlothian.gov.uk](mailto:jill.stacey@midlothian.gov.uk)

### **3 Background**

- 3.1 Internal Audit 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.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to improve internal controls, risk management and governance. At Internal Audit Final Report stage the Audit Recommendations are input to Pentana, the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.
- 3.4 Each year, Internal Audit undertakes two follow up reviews on the recommendations it has raised. The first checks a sample of Internal Audit recommendations which have been marked as complete by Management and reviews the adequacy of the actions taken and improvements made (the subject of this report). The second reports on the progress Management have made in implementing the recommendations by the expected date (scheduled for 7 December 2021 Audit Committee).
- 3.5 The Remit of the Audit Committee includes "To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

### **4 Update Report**

- 4.1 The objective of this follow-up audit was to review a sample of Internal Audit recommendations that have been signed off by Management as complete during the period 1 April 2020 and 31 March 2021 to assess the evidence that recommendations have been implemented satisfactorily and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk. The initial follow-up audit work was carried out in the first quarter 2021/22.
- 4.2 A sample of 36 Internal Audit recommendations were selected, which were shown at the 'completed' status on the Pentana system relating to the following Internal Audit reports, and evidence was obtained to support the satisfactory completion of each recommendation sampled. Summary is shown below:

Financial Year	Internal Audit Report	No.	High Rated	Medium Rated	Low Rated
2016/17	Monitoring of External Care Homes	1		1	
2016/17	Stores	1		1	
2016/17	Sundry Debt	2		2	
2017/18	Climate Change Reporting	1		1	
2017/18	Complaints	2		2	
2018/19	Follow-up of Audit Actions	1		1	
2018/19	Following the Public Pound	1		1	
2018/19	Payroll Starters and Leavers	1		1	
2018/19	Workforce Strategy and Planning	2	1	1	
2019/20	Asset Registers	2		1	1
2019/20	Attendance Management	1	1		
2019/20	Business Planning, Budget Setting and Monitoring	2		2	
2019/20	Change and transformation	5	4	1	
2019/20	Commercial Rents	2		1	1
2019/20	Electronic Payment Systems	3		2	1
2019/20	ICT Operational Processes	1		1	
2019/20	Information Governance (Records Management)	3			3
2019/20	Leisure Management System	2		2	
2019/20	Procurement and Management of Contracts	2	2		
2019/20	Social Care, Charging and Billing	1			1
	<b>Total</b>	<b>36</b>	<b>8</b>	<b>21</b>	<b>7</b>

- 4.3 From the 36 Audit recommendations tested, 31 (86%) were found to have been completed satisfactorily, and 5 (14%) were identified as partially satisfactory requiring further work.
- 4.4 For the 31 Audit recommendations that were found to have been completed satisfactorily (8 High-rated; 17 Medium-rated; and 6 Low-rated) the evidence that was provided by Management indicated that they have been implemented satisfactorily and the action taken had the desired effect on improving internal control and governance. This is a positive outcome during an extremely challenging period.
- 4.5 Of the 5 Audit recommendations identified as partially satisfactory requiring further work: 4 were Medium-rated and related to Business Planning, Budget Setting and Monitoring (2), and Leisure Management System (2); and 1 was Low-rated and related to Electronic Payment Systems (1). In all instances, action had been taken by Management to progress the recommendations though these had not been completed in their entirety to provide the improvements required and as initially agreed.
- 4.6 There has been positive engagement between Internal Audit and the Audit Action Owners to confirm what is required to ensure the remaining elements of the Audit Actions are fully completed or a sustained control is established to improve internal controls and governance, and reduce risk. These Audit Actions have been re-opened on the Pentana system as 'in progress' to enable the remaining elements to be completed by the agreed timescales.

4.7 The 5 Audit recommendations identified as partially satisfactory requiring further work are shown below:

Audit	Recommendation	Rating
2019/20 - Business Planning, Budget Setting and Monitoring	The Financial Services team should review budget monitoring reporting at other local authorities of a similar size to Midlothian. Opportunities exist to present reports in more detail and with greater clarity for users than are currently produced; a fuller explanation of the reasons and implications of revisions to budgets during the year would be helpful to aid all stakeholders in their understanding of the budget position.	Medium
2019/20 - Business Planning, Budget Setting and Monitoring	As the position with savings will be assessed as part of the quarterly budget monitoring reporting, progress with the achievement of savings targets should be integrated into the budget monitoring reports and then reused for reporting to BTB and BTSg.	Medium
Leisure Management System	The Project Board for the Legend system should be resumed. It should review progress with the project objectives, any issues identified, any outstanding project actions and the project plan should be updated accordingly.	Medium
Leisure Management System	The outstanding debt recorded on the Legend system should be reviewed and updated to ensure it accurately reflects any invoices paid via Integra. The refund policy for block bookings should be reviewed taking account of VAT regulations.	Medium
Electronic Payment Systems	A Business Continuity Plan for the payment systems should be developed and should be subject to periodic testing (e.g. annual review).	Low

4.8 Internal Audit will continue to work with Executive Business Managers and Audit Action Owners as a critical friend to ensure the Audit Actions are fully completed with provision of evidence to support this, to demonstrate continuous improvement. Audit Actions Owners have been reminded that requests can be made to extend due dates if progress on their implementation is not as originally expected.

4.9 The Corporate Management Team routinely consider audit matters as part of their Senior Management oversight of progress with and outcomes from implementing Internal Audit recommendations. CMT considered this report on 8 September 2021.

4.10 Internal Audit will carry out the second Internal Audit Recommendation Follow-up Review within the Internal Audit Annual Plan 2021/22 in due course. The objective of the second review will be to assess Management's reported performance in closing actions raised by Internal Audit by the agreed due date. The outcomes and any matters of concern will be reported to CMT and the Audit Committee in December 2021.

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

### 5.1 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.

## **5.2 Digital**

There are no digital implications arising from this report.

## **5.3 Risk**

The recommendations made by Internal Audit are designed to reduce the level of risk to which the Council is exposed through the strengthening of the control environment and management of risks.

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.

## **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 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.

## **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."

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 is presented to the Audit Committee to fulfil its remit "monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

This report has been presented to the Chief Executive and Directors to outline the key messages of assurance and areas of improvement. The implementation of Audit recommendations will continue to be tracked by Management using the Pentana system and followed-up by Internal Audit. Any further matters of concern will be raised to Corporate Management Team and the Audit Committee as appropriate.

#### **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.





**Internal Audit Work to August 2021****Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Consider the Executive Summaries of the final Internal Audit assurance reports issued;
- b) Note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work carried out; 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 2021/22 was approved by the Audit Committee on 9 March 2021. 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 reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

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

**Date 17 September 2021**

**Report Contact:**

Jill Stacey      Tel No  
[jill.stacey@midlothian.gov.uk](mailto:jill.stacey@midlothian.gov.uk)

### 3 Progress Report

- 3.1** The Internal Audit Annual Plan 2021/22 was approved by the Audit Committee on 9 March 2021. Internal Audit has carried out the following work in the period from 1 April to 31 August 2021 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 MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Homelessness
  - Invoice Approval and Optical Character Recognition
- 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.

#### Current Internal Audit Assurance Work in Progress

- 3.5** Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2021/22 consists of the following:

Audit Area	Audit Stage
Risk Management	Draft Report issued
Roads Maintenance Service	Report being drafted
EU Funded Programme Tyne Esk LEADER	Report being drafted
Income Collection	Testing underway
Performance Management (LGBF)	Testing underway
Digital Learning Strategy	Testing underway
Performance Management (Framework)	Testing underway

## Internal Audit Consultancy and Other Work

- 3.6** Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board, Capital Plan and Asset Management Board, and Information Management Group.
  - Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums and meetings.
  - 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.
  - Carried out background research and analysis associated with the Financial Policy and Governance Framework assurance audit. This has been preparation in advance of working with Financial Services in a critical friend role in alignment with the timescales of their work programme of financial policy review.
  - Undertaken some initial Internal Audit work on the Destination Hillend capital project associated with the Capital Investment assurance audit.

## Recommendations

- 3.7** 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:

<b>High:</b> 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.
<b>Medium:</b> 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.
<b>Low:</b> 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.

- 3.8** The table below summarises the number of Internal Audit recommendations made during 2021/22:

	2021/22 Number of Recs
High	0
Medium	2
Low	5
<b>Sub-total reported this period</b>	<b>7</b>
Previously reported	0
<b>Total</b>	<b>7</b>
Recommendations agreed with action plan	7
Not agreed; risk accepted	0
<b>Total</b>	<b>7</b>

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

### **4.1 Resource**

Internal Audit staff resources have been adversely affected during the first quarter of the year due the continued part-time deployment of the two Internal Auditors to assist with the administration of support grant payments, as part of the Council's ongoing emergency response associated with the Covid-19 pandemic.

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.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Homelessness</p> <p>Category: Assurance – Cyclical b/f 2020/21</p> <p>Date issued: 02 July 2021 Draft; 26 August 2021 Final</p> <p>Level of Assurance: Substantial (the advice and assistance provided, application and assessment processes, linkages with other services, and budget monitoring) and Limited (case management and quality assurance).</p>	<p>The purpose of this assurance audit was to review the controls in place to ensure the achievement of statutory obligations for the Homelessness Service, including the prevention and support arrangements in place for the Council's customers.</p> <p>The Council has a legal duty to assist all applicants presenting as homeless or at risk of homelessness as set out in the Housing (Scotland) Act 1987. As at April 2021 Midlothian Council had 785 open homelessness cases and 393 service users in temporary accommodation. The number of open homelessness cases has reduced by 26% since April 2017 (1068). The number of presentations has remained similar in the past few years.</p> <p>In 2020/21 the average case length for a homelessness applicant was 110 weeks as at April 2021, up from 107 weeks in April 2017. As reported in the Local Housing Strategy 2021-2026, the length of time taken for homeless households to wait for permanent housing in Midlothian is the longest in Scotland, and the waiting time is not expected to decrease for several years due to the backlog of homeless applications. Midlothian Council has a low stock turnover of social housing. In addition, the pressure of having the fastest growing population in Scotland in percentage terms has contributed significantly to the demand for social housing. These factors put Midlothian Council in a challenging position with regard to homelessness.</p> <p>The Homelessness Service ceased using B&amp;B Accommodation as emergency accommodation from the end of November 2020. This was achieved by introducing shared tenancies with two people sharing a property each with their own lockable bedroom, through providing additional supported accommodation spaces managed by the Council's external provider, and the Housing Allocations Policy (updated in April 2020) increased the proportion of all lets to Homeless applicants from 45% to 60%. The Council has implemented the Housing First scheme to help permanently re-house service users with repeat instances of homelessness, increased partnership working with Children's Services to develop prevention pathways, and is developing a Prevention Fund to intervene and prevent cases of homelessness arising in the future. These activities are documented in the Council's revised Rapid Rehousing Transition Plan, submitted to the Scottish Government in June 2020.</p>	0	1	4	<p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations, two of which have now been completed.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Homelessness (cont'd)	<p>Internal Audit considers the level of assurance we are able to give is Substantial in relation to the advice and assistance provided, application and assessment processes, linkages with other services, and budget monitoring, and Limited in relation to case management and quality assurance.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Homelessness service's webpage should be updated to cover the full range of services offered and service information leaflets updated and distributed as required. (Low)</li> <li>• Suitable audit trails should be established for the assessment of cases (ensuring the basis of the conclusions of the three tests of homelessness are consistently recorded in a standard format) and all documentation / evidence relating to applications retained on file. The audit trail of the shortlisting process for temporary accommodation and for the declaration of conflicts of interest for the Housing First scheme should be improved. (Low)</li> <li>• Management should develop a risk register for the Housing Services and Homelessness Services and periodic risk reporting, given the statutory nature of the services. (Low)</li> <li>• Management should review the routine review and lost contact processes to prioritise the cases with the oldest planned review date and improve monthly performance in the number of outstanding reviews. Processes should be developed to improve the audit trail of management case reviews and report on these. (Medium)</li> <li>• Management should liaise with Financial Services to ensure that the service budgets for third party payments and service charge income are brought into line with the current level of activity and contractual arrangements in place. (Low)</li> </ul>				



Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Invoice Approval &amp; OCR (Optical Character Recognition)</p> <p>Category: Assurance – Risk b/f 2019/20 &amp; 2020/21</p> <p>Date issued: 7 September 2021 Draft; 14 September 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess the authorisation controls, including segregation of duties and security controls, over the invoice approval and optical character recognition process.</p> <p>The finance system used by the Council is Integra 2 provided by Capita. In 2017 the Council purchased the Invoice Approval System module (IAS module) of the Integra finance system and commenced a project to implement this module across the Council with some services first trialling it in late 2017. The module allows for the electronic authorisation of invoices registered with Integra, and complements the existing purchase order authorisation module within the system. The system has replaced the paper authorisation processes for a large number of Council services. There are five distinct processes for the payment of invoices in the Integra system: Invoice Approval, E-invoicing, Mosaic Interface, manual (paper) authorised invoices and bankline payments.</p> <p>For the financial year 2020/21, £374m (volume 96k) of payments were processed through Integra and £73.5m (volume 21k) of these were authorised through the IAS module. A small number of duplicate payments were identified from a data match exercise carried out on all types of payments processed through Integra (12 duplicates totalling £13,852; 8 from IAS totalling £5,288). £11,126 has already been recovered to date. Given the volume and financial value of invoices paid through Integra, this provides good assurance that duplicate invoice payments are minimised. Internal Audit will carry out an annual data match to assist with detection and recovery of any duplicate payments.</p> <p>It was found that segregation of duties and a robust audit trail is embedded within the system. Internal Audit considers that the level of assurance is Substantial for the invoice approval and optical character recognition process.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Authorisation levels in Integra should be reviewed and the Authorised Signatories Database should be updated. (Medium)</li> <li>• Monitoring should be enhanced to ensure invoices waiting for authorisation and allocated to known leavers are promptly identified and reallocated. (Low)</li> </ul>	0	1	1	Recommendations accepted in full by Management and action underway to implement these to secure comprehensive assurance.



## **Audit Scotland Fraud and Irregularity Update 2020/21**

**Report by Jill Stacey, Chief Internal Auditor**

### **Report for Decision**

#### **1 Recommendations**

The Audit Committee:

- a) Acknowledge the Audit Scotland counter fraud report published in recent months;
- b) Note that the Integrity Group of officers has considered the report as part of their counter fraud role and responsibilities, has agreed next steps and will report back on Management Actions required for improvement and assurance purposes.

#### **2 Purpose of Report/Executive Summary**

The purpose of the report is to make the Audit Committee aware of a recently published counter fraud report by Audit Scotland and the Management Actions undertaken in response for improvement and assurance purposes.

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.

**Date 31 August 2021**

**Report Contact:**

Jill Stacey                      Tel No  
[jill.stacey@midlothian.gov.uk](mailto:jill.stacey@midlothian.gov.uk)

### 3 Background

- 3.1 The Council at its meeting on 25 August 2020 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy, which had been endorsed by the Audit Committee on 22 June 2020 along with the Terms of Reference of the new Integrity Group.
- 3.2 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.
- 3.3 The purpose of the Integrity Group, which is integral to delivering the Counter Fraud Strategy, is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). One way to achieve that is through engaging with national forums to share intelligence, lessons learned and best practice, carrying out a self-assessment of the Council's arrangements and agreeing any appropriate actions to continuously improve the arrangements in place.
- 3.4 In 2020 the Integrity Group carried out an assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks. The findings from which were reported to the Audit Committee on 9 March 2021, along with the necessary actions to enhance the Council's resilience to fraud.

### 4 Audit Scotland Fraud and Irregularity Update 2020/21

- 4.1 The following report has been published by Audit Scotland in recent months relating to fraud risks and outcomes:  
[Fraud and irregularity 2020/21 | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk/publications/fraud-and-irregularity-2020-21)  
 (published 1 July 2021) This report sets out a range of fraud risks emerging since the start of the Covid-19 pandemic. It also shares information about cases where internal control weaknesses in public bodies have led to fraud and irregularity.
- 4.2 This provided an opportunity for the Integrity Group of officers to consider at its meeting on 31 August 2021 the report 'Fraud and irregularity 2020/21' by Audit Scotland.
- 4.3 The Integrity Group, in noting the similarities in the fraud risks reported in 2020 and 2021 by Audit Scotland, agreed to monitor progress with the improvement actions identified in its 2020 assessment of counter fraud controls. Although none of the fraud and irregularity reported cases related to Midlothian Council, the Integrity Group also agreed to carry out an assessment of the internal controls at Midlothian Council associated with each of the reported cases in public sector bodies that led to fraud and irregularity 2020/21, to determine any Management Actions required. A report will be presented to the Audit Committee in December 2021 for improvement and assurance purposes.

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

### **5.1 Resource**

The Integrity Group will support the 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; meeting during the course of fraud investigations with the aim to take corrective action, minimise losses and help prevent further frauds; and coordinating with Serious Organised Crime (SOC) Group.

### **5.2 Digital**

None.

### **5.3 Risk**

The Council is committed to minimising the risk of loss due to fraud, theft, corruption or crime and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

The Counter Fraud Policy Statement 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. The steer provided by the Integrity Group and the work undertaken by the Corporate Fraud Team in collaboration with other Services is designed to reduce the fraud risks within the Council.

### **5.4 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.

### **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 (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 vulnerability 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 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 been promoted in recent years and is being utilised by staff, 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 and Corporate Fraud 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.





## **Risk Management Update, Quarter 1 2021/22**

**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 1 2021/22.

### **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 Quarter 1 2021/22 to respond to the current risk climate; and to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks.

**Date** 19 September 2021

**Report Contact:**

Derek Oliver, Chief Officer – Place  
[derek.oliver@midlothian.gov.uk](mailto:derek.oliver@midlothian.gov.uk)

### **3 Q1 Risk Management overview**

#### **3.1** Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 1 2021/22 against a backdrop of operating within a series of government directed constraints and transition through Protection Levels, associated with responding to a global pandemic.

As the Council has responded and recovered to the pandemic, it became apparent that the public sector faced a new challenge in Quarter 1.

There were two significant factors which had the potential to interplay over Quarter 1. These were the concurrent risks of:

- COVID 19
- UK Exit from the EU

In addition to these new risks, the Council continued to manage and review those risks recorded within the Strategic Risk Profile. The work required to maintain the necessary Corporate oversight over the broader strategic landscape continues.

#### **3.2 UK Exit from EU**

The Council's EU Exit Working Group had been reconvened by the Chief Officer Place in Quarter 1 2020/21 to enable suitable planning to take place in response the emerging new relationship with the EU and any changes which had the potential to impact services or supplies.

With information from Government limited, there was negligible impact being experienced or indeed attributed to the EU Exit whilst the country was responding and recovering from the pandemic. Despite this, the internal group continues to meet to support assessment of the impacts leaving the EU has created and to identify appropriate organisational responses. Quarter 1 2021/22 saw forecasts of workforce and supply chain issues but they were not yet experienced locally by the Council. With the likelihood and impacts that these would have on Council operations increasing, the risk evaluation of EU Exit has risen from Low Risk in Q4 2020/21 to Medium Risk in Quarter 1 2021/22.

#### **3.3 Strategic Risk Profile update**

The on-going risk associated with financial stability and balancing the budget in future years remains, with the medium term financial plan demonstrating the Council's financial stability.




Spending within budget will continue to be closely monitored through the Business Transformation Steering Group with steps taken to realign spend where its identified as being off target.

The highest risks set out within the strategic risk profile at quarter 3 are associated with the 'Early Years expansion', the 'Scottish abuse inquiry'





















and Asset Management, with an increased evaluation on the impacts of EU Exit.

### 3.5 Strategic Risk Profile Summary





The Strategic Issues for the Council are summarised in table 1:

Issues	Likelihood	Impact	Score	Evaluation Q1		Q4 20/22
COVID 19	5	5	25	Critical		Critical
Financial Stability	3	4	12	Medium		Medium
The Change Programme	3	3	9	Medium		Medium

The Strategic Risks for the Council are summarised in table 2:

Strategic Risks	Likelihood	Impact	Score	Evaluation Q1		Q4 20/22
Early Years Expansion (1140 Hours)	4	5	20	High		High
Scottish Child Abuse Inquiry	5	4	20	High		High
Asset Management	4	5	20	High		High
Scottish Child Abuse Claims Project	3	5	15	Medium		High
Information Security	3	5	15	Medium		Medium
Cyber Security	3	5	15	Medium		Medium
Health and Safety	3	5	15	Medium		Medium
UK decision to leave the EU	3	4	12	Medium		Low
The Long Term Change Programme	3	4	12	Medium		Medium
Financial Sustainability in future years	3	4	12	Medium		Medium
Growing Council	3	4	12	Medium		Medium
Care at Home	3	4	12	Medium		Medium
Governance and standards	3	4	12	Medium		Medium
Employee performance	3	4	12	Medium		Medium
Emergency planning and business continuity	3	4	12	Medium		Medium
Climate change	3	3	9	Medium		Medium
Legal and Regulatory compliance	3	3	9	Medium		Medium
Working with other to deliver outcomes	3	3	9	Medium		Medium
Internal control environment	3	3	9	Medium		Medium
Corporate policies and strategies	2	3	6	Low		Low

The Strategic Opportunities for the Council are summarised in table 3.

Strategic Opportunities	Likelihood	Impact	Score	Evaluation Q1 21/22	Q4 20/21
City Deal	5	5	25	Critical 	Critical
Creating a World Class Education System	4	5	20	High 	High
Shawfair	5	4	20	High 	High
Easter Bush – Penicuik	5	4	20	High 	High

### 3.6.1 STRATEGIC ISSUE – RATED CRITICAL AND HIGH

#### 3.6.1 COVID 19

During Quarter 1, the country continued to progress through the Protection Levels, with enhanced contact tracing. On 5<sup>th</sup> June, Midlothian, being one of 13 mainland authorities, remained at Level 2 along with the City of Edinburgh, while neighbouring West and East Lothians transitioned to Level 1. This brought with it an anticipation of cross boundary travel to otherwise restricted business types, carrying transmission risk but also implications on the local economy.

The Council's Incident Management Team (CIMT) continued to co-ordinate and oversee preparations and planned responses to the implementation of the tiered system. During Quarter 1, the CIMT maintained oversight to track potential risk impacts, the risk controls in place and to record progress on actions being taken to mitigate potential or expected impacts.

### 3.7 STRATEGIC RISKS – RATED CRITICAL/HIGH

#### 3.7.1 Asset Management

This risk continues to reflect the challenges managing the need for increased assets to meet the growth demand against the current financial backdrop of reducing revenue. The Capital Plan and Asset Management Board continued to robustly monitor capital projects, recognising that slippage in the capital programme weakens the overall financial management.

Given the importance of the built estate within Education to support delivery of the Council's priorities in this area, the Council established a Learning Estate Manager post and Executive Business Manager post within Education and Children's Services, to oversee delivery of School Estate Strategy. Estate Project Board established to oversee and track progress against agreed projects and delivery.

### **3.7.2 Scottish child abuse inquiry**

The Council have an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise.

Legislation to create a scheme for survivors of historical child abuse in care in Scotland to apply for financial redress payments of up to £100,000, as well as access to apology and support, has been passed by the Scottish Parliament. The Redress for Survivors (Historical Child Abuse in Care) (Scotland) Bill. Survivors will be able to apply for a fixed rate redress payment of £10,000, or an individually assessed redress payment which will involve a more detailed examination of their experience. The individually assessed redress payment levels are set at £20,000, £40,000, £60,000, £80,000 or £100,000. Financial contributions are being sought by the Scottish Government from those involved in the care of the children at the time they were abused and COSLA has already offered to contribute £100 million to the scheme. All relevant actions with respect to the Claims Project have been completed and reduced the evaluation outcome of the risk in Quarter 1.

### **3.7.3 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.

The funding distribution to apply this Government policy is subject to ongoing monitoring, with the Council seeking to influence the proposed funding distribution beyond 2021/22 to ensure deliverability of this policy. An Early Years report was reported to Council in June 2021 and included information on risks associated with proposed funding distribution. Cosla proposal shared on funding quantum for 2022/23 with LAs for comment in August 2021.

## **3.8 STRATEGIC OPPORTUNITIES**

### **3.8.1 City Deal**

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

### **3.8.2 Fastest Growing Council**

Midlothian Council has been identified in 2018 as not only the fastest growing Council in Scotland in recent years, but projections show it will remain so, possibly for a further ten years.

This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.

This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing sector, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.

### **3.8.3 Creating a World Class Education System**

The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. Funding has been approved by Scottish government to create a STEM centre of excellence as a replacement for Beeslack High school.

Research is being carried with the University of Edinburgh to establish the impact of new school buildings on educational attainment.

### **3.8.4 Shawfair**

The Shawfair development, with its new Rail link provides a major incentive for house builders, employers, retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.

### **3.8.5 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.

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

### **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 1 2021/22 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**

There are no direct equalities issues arising from this report.

### **4.5 Additional Report Implications (See Appendix A)**

#### **Appendices**

**Appendix A – Strategic Risk Profile (Quarter 1 2021/22)**

**Appendix B – Strategic Risk Profile (Quarter 4 2020/21)**

## APPENDIX A – Additional 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

### 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.





## Appendix A – Strategic Risk Profile (Quarter 1 2021/22)

### ISSUES

#### COVID 19


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	<p><b>Risk cause:</b> COVID 19 Virus</p> <p><b>Risk event:</b> Virus evident in all communities with rates of positive infection increasing. In a Scottish setting the focus on increase is within the central belt.</p> <p><b>Risk effect:</b> Potential for widespread impacts with the risk of significant levels of community transmission leading to increased government restrictions aimed at reducing community transmission.</p> <p>Delivery of services making use of remote working solutions as far as possible. National lockdown measures to limit and control spread, impact on income generating services.</p> <p>Rapid pace of guidance change following government announcements and expectation of quick changes to service delivery inline with new controls.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<ol style="list-style-type: none"> <li>1. CIMT was established to take Strategic approach to managing response to COVID 19. Stands ready to be re-initiated at any time.</li> <li>2. Employees directed to work from home where possible, follow Scottish Government guidance and MC remote working by default Policy.</li> <li>3. COVID-19 guidance monitored and continually revised then issued to Adult Services, children's services, education and CLL around how they would continue to maintain contact with children and young people who were deemed to be at risk.</li> <li>4. Keeping employees briefed and supported through the Chief Executive's weekly staff briefings; Communications weekly email and routine HR updates. (e-mailed to all employees through combination of work and personal e-mail addresses). Includes Wellbeing advice, guidance and support and signposting to PAM and EAP providers.</li> <li>5. Promotion of digital tools to support employees and prevent employees becoming isolated.</li> <li>6. Council website kept up-to date, providing details of which services were operating and any changes on how to access services.</li> <li>7. Remote working by default, with digital kit provided to support this for critical activities as required.</li> <li>8. Following safe working guidance issued by Scottish government relevant to sectors.</li> <li>9. Economic Recovery Strategy</li> <li>10. Support for Test and Protect</li> <li>11. School and workplace based COVID risk assessments continually reviewed to support the identification and control of risk</li> </ol>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.10.16	Risk assessment/Guidance on protective measures.	<b>Q1 21/22:</b> Gallagher Basset will undertake a review of all Risk Assessments and procedures across the Council estate. A report will be presented to CMT following receipt.	Chief Officer Place	30-Sep-2021	
SRP.IA.10.17	4,000 mobile devices issued to support home learning	<b>Q1 21/22:</b> 3,300 devices have now been returned and reorganised in preparation to be re-deployed as part of the Equipped for Learning. The Equipped for Learning programme will see these 3,300 plus new devices deployed to all Midlothian pupils (14,000 approx total).  700 devices remain with young people to support digital inclusion and remote learning. These devices will be swapped out on deployment day to ensure those young people have the exactly the same device model as their peers.	Chief Officer Corporate Solutions; Executive Director Children, Young People and Partnerships	31-Mar-2022	


## SRP.IR.02 The Change Programme


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p><b>Risk cause</b> The pace of transformation strands of activity, reporting to the Business transformation board, does not secure service transformation and delivery of outcomes</p> <p><b>Risk event</b> Delayed progress or non achievement of outcomes.</p> <p><b>Risk effect</b> Slow or delayed proposals/savings arising from service redesign, requiring the adoption of recover plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place; Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Strategic Boards in place reporting to the Business Transformation Board covering range of transformation strands: Capital Strategy; Carbon Neutral by 2030; Digital First; Economic Renewal; Education Recovery; HSCP Transformation; Hub &amp; Spoke Place Based Solutions; Remote Working.</li> <li>2. Securing financial balance for 2021/22 and 2022/23 budgets secured by a corporate solution which avoided the need for further service reductions. This covers the remaining budgets to be determined by this term of Council</li> <li>3. "Mini Budgets" progressed in 2020/21 and in 2021/22 that removed non-deliverable legacy savings targets.</li> <li>4. Financial monitoring reports and work of the FM CMT evidence continued financial sustainability and overall delivery of services within budget.</li> <li>5. Recognition of and actions progressing, to develop the next iteration of the MTFS covering the term of the next Council.</li> </ol>	3	3	

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

SRP.IA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q1 21/22:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update proposed to BTSG meeting on 7<sup>th</sup> June to consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/24 to 2028/29.</p> <p>In turn, this will support a report, via BTSG, to Council in November 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> <li>The Projections and key assumptions endorsed by BTSG</li> <li>The projected gap between recurring expenditure and funding</li> <li>A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and</li> </ul> <p>With further updates to BTSG and then to Council on 14 December 2021 and 15 February 2022. All to allow Council to determine the budget for 2022/23.</p> <p>In parallel work continues to bring forward the next iteration of the MTFS, for the term of the next Council, for consideration after the May 2022 election.</p>	Chief Officer Corporate Solutions	15-Feb-22	
--------------	---	---	---	-----------	---


### SRP.IR.07 Financial Sustainability


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p><b>Risk cause</b> Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Rising customer expectations</p> <p><b>Risk event</b> Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps</p> <p><b>Risk effect</b> Inadequate government funding makes securing balanced budgets challenging. It turn erodes the Council's ability to deliver services to the 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.</p>	Chief Officer Corporate Solutions;	<ol style="list-style-type: none"> <li>There is an approved Capital Strategy and Reserve Strategy in place</li> <li>There is an approved budget for 2021/22 and a corporate solution proposed for 2022/23</li> <li>There are 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.</li> <li>Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</li> <li>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.</li> <li>Chief Executive has emphasised the need for much needed control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate.</li> </ol>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.07.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<b>Q1 21/22:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at next BTSG meeting on 7th June consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/24 to 2028/29.	Chief Officer Corporate Solutions	15-Feb-22	


## 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><b>Risk cause:</b>  Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, funding from Scottish Government  Increasing ageing population of over 75's  Increasing population of 0-15 age group  Rising customer expectations  Policy decisions by UK &amp; 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 and implications of living wage increases.  Inflation, interest rates, tax, income levels, service demand  Potential Economic shock arising from UK departure from EU  Rising customer expectations</p> <p><b>Risk event:</b>  Real terms reduction in core grant settlements.  Policies decisions at Government level not fully funded to Council's.  Implementation of a National Care Service  Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge.  Cost pressures exceeding budget estimates.  Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery.</p> <p><b>Risk effect:</b>  Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit</p>	<p>Chief Executive;  Executive  Director Children, Young People and Partnerships;  Executive  Director Place:  Head of Adult and Social Care;  Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work;  Head of Primary Care and Older People; Chief Officer Place</p>	<ol style="list-style-type: none"> <li>1. Development of Medium Term Financial Strategy.</li> <li>2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures.</li> <li>3. Capital and Reserves Strategies in place.</li> <li>4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</li> <li>5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in.</li> <li>6. Best Value Audit report actions.</li> </ol>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<b>Q1 21/22:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at BTSG meeting on 7th June to consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/24 to 2028/29. Updates to BTSG in November 2021 and January 2022, supporting Council reports on 14 December 2021 and 15 February 2022.	Chief Officer Corporate Solutions	15-Feb-22	

### SRP.RR.02 The Long Term Change Programme


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	<p><b>Risk cause</b> A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area Reduced resources Leadership fit for the future Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision</p> <p><b>Risk event</b> 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><b>Risk effect</b> 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>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Financial Strategy and Change Programme</li> <li>2. Leadership from all Elected Members, Executive Team and Senior Leadership Group.</li> <li>3. Appropriate governance in place across the BTB Program</li> <li>4. Resilience planning.</li> <li>6. Capacity to deliver change.</li> </ol>	3	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-	Develop Medium Term Financial Strategy with greater	<b>Q1 21/22:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability	Chief Officer	15-Feb-22	






02.03	oversight, clearer responsibility and accountability.	Financial Update propose that at BTSG meeting on 7th June to consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/24 to 2028/29. Updates to BTSG in November 2021 and January 2022, supporting Council reports on 14 December 2021 and 15 February 2022.	Corporate Solutions		
-------	---	--	---------------------	--	--


### SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p><b>Risk cause</b> Current or new legislation applying to Midlothian Council</p> <p><b>Risk event</b> Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p><b>Risk effect</b> 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>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>1. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required.</p> <p>2. Annual Assurance Statement.</p> <p>3. Internal Audit testing of internal controls as part of risk based audit plan.</p> <p>4. External Audit.</p> <p>5. Range of external inspection.</p> <p>6. Local Scrutiny Plan</p> <p>BTSG oversight of new legislation</p>	3	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.01	Legal & Regulatory Compliance	<b>Q1 21/22:</b> Chief Officers and Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social	31-March-2022	


			Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place		
SRP.RA.03.0 2	Rights of the Child Bill	<b>Q1 21/22:</b> Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Government's new bill on the rights of the child is expected to have far reaching implications for public bodies. With guidance beginning to be disseminated from the Scottish Government, the Council is continuing to monitor and plan.	All Directors	1-Nov-2021	
SRP.RA.03.0 3	Independent review of adult and social care	<b>Q1 21/22:</b> Following an independent review of adult social care, a Scottish Government consultation is due to be published on 9 <sup>th</sup> August 2021 on proposals to improve the way social care is delivered, entitled: National Care Service for Scotland: Consultation. With full consideration of the consultation and acknowledgement of potential risks, this has been identified as an emerging risk within the IJB.	Joint Director Health and Social Work	31-Mar-2022	
SRP.RA.03.0 4	Health Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020 due to expire on 30 Sep 2021 (subject to review).	<b>Q1 21/22:</b> CMT, Group Leaders briefings and Quarterly Performance Framework continue to detail and report on external developments.	Chief Executive	31-March-2022	

#### SRP.RR.04 Employee performance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<b>Risk cause</b> 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	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health	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.  <b>Attendance / Wellbeing</b> 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.	3	4	


	<p><b>Risk event</b> Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change</p> <p><b>Risk effect</b> 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>	and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p><b>Performance</b> 1. Council-side and Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 5. Continued re-enforcement of all People Policies involving various communication methods. 6. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc.</p> <p><b>Organisational Change</b> 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><b>Conduct</b> 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><b>Communication</b> 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>			
--	---	--	---	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04	Revisions to Service Workforce Plans	<b>Q1 20/21:</b> Place Directorate Service Review underway, with phase 1 of Place Services nearing implementation. Children's Services, Corporate Solutions and Development reviews implemented across Q2-3.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's	31-Mar-2022	


			Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place		
SRP.RA.02.05	Workforce Wellbeing	<b>Q1 21/22:</b> New EAP provider appointed to ensure highest level of service provided to staff. Embedding of the new Employee Health and Wellbeing Strategy. Partnership status obtained with See Me mental health charity. Roll out of mental health awareness training.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-Mar-2022	


## SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<b>Risk cause</b> General Data Protection Regulation formulated by the European Commission. <b>Risk event</b> The Regulation implemented on 25 May 2018. <b>Risk effect</b> The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros whichever is greater.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate	1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i) 5. General Data Protection Regulation Project plan implemented with close report. 6. Public sector cyber security compliance 7. Implementing Scottish Government Cyber Security Action Plan 8. Mandatory e-learning for all employees and elected members. 9. Data sharing arrangements on contracts being reviewed to ensure consistency in terms of health and social care contracts.	3	5	


		Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place			
Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.06.0 1	Cyber Security	<p><b>Q1 21/22:</b> Midlothian Council cyber security independently validated in 2021 by achieving Cyber Essentials Plus certification in February and PSN compliance certification in July. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan).</p> <p>Additional measures have been taken to protect backup data by storing copies away from the Council's network to keep them safe. All admin passwords have been or in the process of being encrypted and secured and the Council has invested in the latest anti-virus software.</p>	Chief Officer Corporate Solutions	31-Mar-2022	


#### SRP.RR.07 Care at Home



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p><b>Risk cause</b> 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><b>Risk event</b> Capacity of Community Support outstripped by demand</p> <p><b>Risk effect</b> 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>	Joint Director Health and Social Work; Head of Adult and Social Care; Head of Primary Care and Older People;	1. Care at Home improvement action plan in place and near compaction 2. Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level 3. New Framework agreement in place with significant improvement in quality from Providers 4. Flow management planning in development to maximise Care at Home capacity going forward 5. Weekly provider meetings in place 6. Additional locum team members recruited to for contingency cover 7. New Leadership model in place 8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place	3	4	
Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status

SRP.RA.07.0 1 / SRP.RA.03.0 3	Independent review of adult and social care	<b>Q1 21/22:</b> Following an independent review of adult social care, a Scottish Government consultation is due to be published on 9 <sup>th</sup> August 2021 on proposals to improve the way social care is delivered, entitled: National Care Service for Scotland: Consultation. With full consideration of the consultation and acknowledgement of potential risks, this has been identified as an emerging risk within the IJB.	Joint Director Health and Social Work	31-Mar-2022	
--	---	--	---------------------------------------	-------------	---


### 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><b>Risk cause</b> Many of the assets the Council own by their nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles &amp; buildings used to deliver services.</p> <p><b>Risk event</b> Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p><b>Risk effect</b> 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>	Chief Officer Corporate Solutions; Chief Officer Place	<ol style="list-style-type: none"> <li>1. There is provision in place within the capital plan for investment in the asset base.</li> <li>2. Asset register</li> <li>3. Conditional Survey</li> <li>4. Understanding of future asset needs</li> <li>5. Asset Strategy: <ul style="list-style-type: none"> <li>. Roads</li> <li>. Land</li> <li>. Fleet</li> <li>. Digital Service Network</li> <li>. Digital Service hardware</li> </ul> </li> <li>6. Capital program - investment in estate.</li> <li>7. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users.</li> <li>8. Established Capital Plan and Asset Management Board</li> </ol>	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.0 2	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	<p><b>Q4 20/21:</b> Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys.</p> <p>Continuing to develop property asset management plans, priority spend on basis of independent surveys.</p> <p>As result of Government guidance on Construction all summer works postponed resulting in the need for rescheduling of planned capital works.</p>	Chief Officer Place	31-Mar-2022	


SRP.RA.08.0 4	Reviewed Roads Asset Management Strategy	<b>Q4 20/21:</b> Roads Asset Strategy, work progressing to migrate to version 4. Information to be taken to capital board on future need for next 5 years.  Work to take forward the Roads Asset Strategy will form a fundamental component of restructured services priorities.	Chief Officer Place	31-Mar-2022	
SRP.RA.08.0 5	School Estate Strategy	<b>Q1 21/22:</b> Revision of existing Learning Estate Strategy and agreement from Capital Project Board to progress with projects.	Executive Director Children, Young People and Partnerships	31-March-2022	


### 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><b>Risk cause</b> The Council not preparing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p><b>Risk event</b> 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><b>Risk effect</b> 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>	Chief Officer Place	<p><u>Potential</u> sub risks include:- 01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Risk and Resilience Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations. 04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI. 05 – Care for People Group meeting 3 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 Resettlement programme</p>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.0 2	Development of Emergency Planning Improvement Plan	<b>Q4 20/21:</b> Contingency Improvement Plan drafted and due to be shared with Risk and Resilience Group ahead of reporting to CMT for approval.	Chief Officer Place	31-Mar-2022	
SRP.RA.09.0 3	Business Continuity System	<b>Q4 20/21:</b> Business Continuity system successfully procured with cross service project group involved. System currently being built around existing Council systems ahead of roll out to all services.	Chief Officer Place	31-Mar-2022	

### 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><b>Risk cause</b> Code of conduct for Members and employees actions falling short of International Standards.</p> <p><b>Risk event</b> Failure in openness, accountability, clarity.</p> <p><b>Risk effect</b> Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life</p>	Legal Services Manager	<p><u>Potential</u> sub risks include:-</p> <p>01 Macro governance at the top – failure in openness, accountability, clarity;</p> <p>02 Micro governance in services, partnerships and projects and outcomes not achieved</p> <p>03 Non-compliance with codes of conduct and reduction in standards in public life</p> <p>04 Annual Assurance Statement.</p> <p>05 Standing Orders</p> <p>06 Scheme of Administration</p> <p>07 Scheme of Delegation</p>	3	4	






Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.10.01	Corporate Governance	<b>Q1 21/22:</b> Annual Assurance Statement; People Policies; and Standing Orders subject to review process	Chief Executive; Executive Director Place	31-Dec-2021	

### SRP.RR.11 Corporate Policies and Strategies


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<p><b>Risk cause</b> Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p><b>Risk event</b> Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities.</p> <p><b>Risk effect</b> Policies not monitored could result in non-compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p>	<p>Chief Executive; Executive</p> <p>Director Children, Young People and Partnerships; Executive</p> <p>Director Place: Head of Adult and Social Care; Chief Officer</p> <p>Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief</p>	<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 in December 2018, positive feedback with allocated funding.</p> <p>5. Procurement Strategy 2018</p> <p>6. Local Procurement Strategy 2021.</p> <p>7. Capital Strategy</p> <p>8. Integrated Joint Board (IJB) Strategic Plan</p> <p>9. IJB Strategic needs assessment</p>	2	3	





		Officer Place			
--	--	---------------	--	--	--


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.0 1	Parental Engagement Strategy	<b>Q1 21/22:</b> Parental Learner Liaison Officer appointed. Will be in post by end of October 2021.	Executive Director Children, Young People and Partnerships	31-Oct-2021	
SRP.RA.11.0 2	Accessibility Strategy	<b>Q1 21/22:</b> Education working with Property colleagues to refresh building data including information on building accessibility. Once work is complete, a workstream will be progressed to ensure Council compliance.	Executive Director Children, Young People and Partnerships	31-December-2021	
SRP.RA.11.0 3	Neighbourhood Services	<b>Q4 20/21:</b> Place Service has been working with community representatives and the Charity Nesta to establish a new Neighbourhood Service aimed at working with Communities to deliver and meet the needs of Services.	Chief Officer Place	31-Mar-2022	
SRP.RA.11.0 4	Remote Working	<b>Q1 21/22:</b> Continue with Remote Working/Digital By Default position. Working through Board to fully implement and deliver the vision in conjunction with trades union.	Chief Officer Corporate Solutions	31-Mar-2022	
SRP.RA.11.0 5	Antisocial Behaviour Policy	<b>Q1 21/22:</b> Working with partners to review and implement a revised whole systems Policy, led by Protective Services.	Chief Officer Place	31-Mar-2022	

## SRP.RR.12 Internal Control Environment


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p><b>Risk cause</b> Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information</p> <p><b>Risk event</b> Persons exploiting opportunities to commit fraud Waste and errors. Changing risk landscape associated with remote working solutions.</p> <p><b>Risk effect</b> Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older	1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy (subject to review) 5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness. 7. Implemented changes to business processes and procedures to maintain and enhance internal control. 8. Bi-annual updates to Audit committee on progress with recommendations noted in the annual governance statement. 9. Continue remind staff of secondary employment/outside interests and gifts & hospitality 10. Digital induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to	3	3	

	Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance	People; Chief Officer Place	organisation. 11. Management Development Programme, delivered in partnership with Edinburgh College, provides reinforcement of organisational regulatory obligations.			
Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status
SRP.RA.12.0 1	Risk Management Policy and Strategy	<b>Q1 21/22:</b> Review of Risk Management Policy and Strategy to be undertaken and approved by December 2021 Audit Committee.		Chief Officer Place	07-Dec-2021	
SRP.RA.12.0 2	Corporate Integrity	<b>Q1 21/22:</b> 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.		Executive Director Place	31-Mar-2022	


### SRP.RR.13 Climate Change

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	<p><b>Risk cause</b> Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act</p> <p><b>Risk event</b> Council Services not responding to the Climate Change Act with sufficient pace.</p> <p><b>Risk effect</b> Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p>	Executive Director Place	1. Statutory requirement to report on compliance with the climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress. 5. Climate Change Strategy 6. Resilience Seminars	3	3	


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

SRP.RA.13.0 2	Recruitment of Climate Change Officer	<b>Q4 20/21:</b> The Council developed a Climate Change Action Plan part of its Climate Change Strategy approved by Council in August 2020, there is now governance to recruit a Climate Change officer. This role is seen as being instrumental in driving forward the Council's Climate Change Action Plan and reporting on progress against the plan.	Chief Officer Place	30-Sep-2021	
------------------	---------------------------------------	--	---------------------	-------------	---


### SRP.RR.14.1 Scottish Child Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	<p><b>Risk Cause:</b> Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p><b>Risk Event:</b> 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. 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><b>Risk Effect:</b> 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. We have request an extension for Parts B, C &amp; 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 system.</p>	Chief Officer Children's Services;	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry.</li> </ol> <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> <li>4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims.</li> <li>5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims.</li> <li>6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council.</li> <li>7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants.</li> <li>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.</li> </ol>	4	5	


--	--	--	--	--	--	--

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	Q1 20/21: File reading continues around foster care and residential care.	Chief Officer Children's Services;	31-Mar-2022	



### SRP.RR.14.2 Scottish Child Abuse Claims Project

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	<p><b>Risk Cause:</b> Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964)</p> <p><b>Risk Event:</b> Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The Claims Working Group has established a process ('Claims Procedure') for dealing with the claims.</p> <p><b>Risk Effect:</b> There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims</p>	Chief Officer Children's Services;	<p>1. Agreed further update to Council to keep them abreast of the current situation and potential implications around staffing and future financial costs.</p> <p>2. The Qualified One Way Costs Shifting (QOCS) is a change in legislation that will mean we cannot recover costs unless the pursuer has made a fraudulent claim or has been 'manifestly unreasonable' This basically takes away all risk for pursuers so if they lose they won't have to worry about paying the Council's costs. At the time of writing there remains no date for implementation of this piece of legislation.</p> <p>SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.</p> <p>3. Scottish Governments Redress Scheme</p>	3	5	

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


		Identified Previous Actions Complete	Chief Officer Children's Services;		
--	--	--------------------------------------	------------------------------------	--	---


### SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p><b>Risk cause</b> Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increased by 100% between 2014 and 2039.</p> <p><b>Risk event</b> 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><b>Risk effect</b> Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Local development plan and supplementary guidance on developer contributions.</li> <li>2. Services planning future service provision on the basis of anticipated service demands</li> <li>3. The change programme</li> <li>4. Learning Estate Strategy, including ASN provision</li> <li>5. Capital Strategy</li> <li>6. Housing Strategy</li> <li>7. Joint needs assessment used to develop - IJB Strategic Plan</li> <li>8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth.</li> <li>9. City deal provides the opportunity to support inclusive growth.</li> </ol>	3	4	
Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status
SRP.RA.16.01	Capital Programme	Q1 21/22: Implementation of Project Management teams, with advertisement for 4 Senior Project Managers.		Executive Director Place; Heads of Development	31-Oct-2022	


### 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><b>Risk cause</b> UK vote to leave the European Union</p> <p><b>Risk event</b> UK leaving the European Union</p> <p><b>Risk effect</b> The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>01 – EU Exit Working Group 02 – Taking a risk management approach to identifying and assessing anticipated impacts 03 – Working with a range of national and local bodies to inform preparatory arrangements. 04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.</p>	3	4	
-----------	---	--	---	---	---	---

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.17.1-1	EU Exit Working Group	<b>Q1 21/22:</b> EU Exit group meets monthly to support assessment and monitoring of impact or potential impacts of exiting the EU, including emerging impacts on supply chains and HGV driver workforce. Continued monitoring and assessment during Q2.	Chief Officer Place;	30-Sep-2021	

## SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	<p><b>Risk cause</b> Failing to identify and rectify non-compliance with Health and Safety regulations.</p> <p><b>Risk event</b> Employees required to undertake tasks they are not</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive</p>	<p>1 – Health Safety and Wellbeing Strategy 2 - Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations (Revised 2021) 3 - Comprehensive range of Health &amp; Safety Management &amp; Assessment based development opportunities for line managers 4 - Use of Health &amp; Safety Management Information System to</p>	3	5	


	<p>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><b>Risk effect</b> Serious injury of ill health impact on employees and or service users. 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.</p>	<p>Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>enhance information transfer and organisational efficiency 5 – Comprehensive training programme in place to support those with responsibility for managing health and safety. 6 - Guidance and Risk assessment templates to support COVID 19 response. 7 – Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy. 8 - New risk assessment guidance and support for managers rapidly deployed in response to COVID 19 in line with associated Scottish Government guidance.</p>			
--	---	---	--	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.06	Delivery of Health, Safety and Wellbeing Strategy	<p><b>Q1 21/22:</b> Revised Health &amp; Safety Management Arrangements approved by CMT; revised health and safety audit programme in support of the check phase of the Council's Health and Safety Management system implemented. External review of Health &amp; Safety practices and protocols undertaken by Gallagher Bassett. Report to October CMT. Collegiate working continues between Environmental Health and Corporate Health &amp; Safety team to ensure all public health and H&amp;S risks are suitably identified, assessed and controlled.</p>	Chief Officer Place;	31-Oct-2021	

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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	<p><b>Risk cause</b> Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% in addition the Scottish Government has made a commitment to increase the current provision of free early years care from 600 to 1140 hours.</p>	Executive Director Children, Young People and Partnerships; Chief Officer Place	<p>1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy</p>	4	5	

	<p><b>Risk event</b> 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><b>Risk effect</b> 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>					
--	--	--	--	--	--	--


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.20.0 1	1140 funding distribution	<b>Q1 21/22:</b> Early Years report to Council in June 2021 included information on risks associated with proposed funding distribution. Cosla proposal shared on funding quantum for 2022/23 with LAs for comment in August 2021.	Chief Executive; Executive Director Children, Young People and Partnerships; Chief Officer Corporate Solutions	31-Dec-2021	

## SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	<p><b>Risk Cause:</b> Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p><b>Risk Event:</b> 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><b>Risk Effect:</b> Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate	<ol style="list-style-type: none"> <li>1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan</li> <li>2. Cyber Essentials Plus Certification</li> <li>3. Public Sector Network Certification</li> <li>4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack</li> <li>5. Employing an Information Governance and Security Lead</li> <li>6. Implementing Scottish Government Cyber Security Action Plan</li> </ol>	3	5	





	<p>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.</p> <p>Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p>	<p>Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>				
--	---	---	--	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.06.0 1	Cyber Security	<p><b>Q1 21/22:</b> Midlothian Council cyber security independently validated in 2021 by achieving Cyber Essentials Plus certification in February and PSN compliance certification in July. The Council has adopted the NCSC (National Cyber Security Centre) Active Cyber Defence programme and fully complies with the Scottish Governments Cyber Security PSAP (Public Sector Action Plan).</p> <p>Additional measures have been taken to protect backup data by storing copies away from the Council's network to keep them safe. All admin passwords have been or in the process of being encrypted and secured and the Council has invested in the latest anti-virus software.</p>	Chief Officer Corporate Solutions	31-Mar-2022	

## OPPORTUNITIES .

### SRP.OP.01 Shawfair



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for house-builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Executive Director Place	1. Shawfair Landowners Group. 2. Legal agreement with developers to secure developer contributions (Section 75) 3. Plan for entire community 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 7. New Primary schools 8. Public Transport infrastructure. 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.01.01	Energy Service Agreement	Q1 21/22: LCTIP subsidy to the energy from waste heat generation.		Executive Director Place	31-Mar-2022	

### SRP.OP.03 Easter Bush - Penicuik



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	One of Midlothian's largest and most significant employment areas. Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. Need to secure long-term strategic road access to ensure continued growth.	Executive Director Children, Young People and Partnerships;	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including Science Technology Engineering and Mathematics (STEM). 2. Land allocated for expansion. 3. Midlothian Science Zone. 4. City Deal funding to provide for growth and strategic road access.	5	4	
Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status

SRP.OP.03.A 1	A701/A702 Trunk Road Improvements	<b>Q1 21/22:</b> Project progress to STAG (Transport Appraisal).	Executive Director Place	31-Dec-2021	
------------------	-----------------------------------	--	-----------------------------	-------------	---

#### SRP.OP.04 City Deal

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation. 200 Council Houses linked to the City Deal.	Executive Director Children, 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.	5	5	
Related Action Code	Related Action	Related action latest note		Managed By	Due Date	Status
SRP.OP.04.0 1	Realisation of outcomes of respective workstreams	<b>Q1 21/22:</b> Continued engagement with CRD forums		Executive Director Place	31-Mar-2022	

#### SRP.OP.07 Creating a World Class Education System


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty. .	Executive Director Children, Young People and Partnerships;	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. Beeslack Replacement High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets 4. Accelerating our ambition – Digital Strategy 5. 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.OP.A.07 .01	Research and development	<b>Q4 20/21:</b> Replacement for Beeslack High school progressing with research being carried out with the University of Edinburgh to establish the impact of new school buildings on educational attainment.  <b>Q1 21/22:</b> Status Quo		Executive Director Children, Young People and Partnerships;	31-Aug-2023	








## Appendix B – Strategic Risk Profile (Quarter 4 2020/21)


### ISSUES .

### COVID 19



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	<p><b>Risk cause:</b> COVID 19 Virus</p> <p><b>Risk event:</b> Virus evident in all communities with rates of positive infection increasing. In a Scottish setting the focus on increase is within the central belt.</p> <p><b>Risk effect:</b> Potential for widespread impacts with the risk of significant levels of community transmission leading to increased government restrictions aimed at reducing community transmission.</p> <p>Delivery of services making use of remote working solutions as far as possible. National lockdown measures to limit and control spread, impact on income generating services.</p> <p>Rapid pace of guidance change following government announcements and expectation of quick changes to service delivery inline with new controls.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<ol style="list-style-type: none"> <li>1. CIMT established to take Strategic approach to managing response to COVID 19.</li> <li>2. Employees directed to work from where possible, follow Scottish Government guidance on shielding.</li> <li>3. COVID-19 guidance issued to Adult Services, children's services, education and CLL around how they would continue to maintain contact with children and young people who were deemed to be at risk.</li> <li>4. Keeping employees briefed and supported through the Chief Executives weekly staff briefings. (e-mailed to all employees through combination of work and personal e-mail addresses)</li> <li>5. Team conference call/Zoom and Microsoft Team meetings, team what's app groups, phone calls to prevent employees becoming isolated.</li> <li>6. Council website kept up-to date, providing details of which services were operating and any changes on how to access services.</li> <li>7. Remote working where possible, with digital kit provided to support this for critical activities as required.</li> <li>8. Following safe working guidance issued by Scottish government relevant to sectors.</li> <li>9. Mortuary capacity increased to support potential increase in demand.</li> <li>10. Economic Recovery Strategy</li> <li>11. Support for Isolate and Protect</li> <li>12. School and workplace based based COVID risk assessments to support the identification and control of risk</li> </ol>	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.10.09	Vulnerable children young people and families gate keeping group	<b>Q4 20/21:</b> Group to support those young people and families who are vulnerable or became vulnerable during the pandemic.	Chief Officer Children's Services	31-Mar-2022	
SRP.IA.10.14	Financial impact	<b>Q4 20/21:</b> Update report to be presented to Council 29 June 2021, monitor funding developments on a daily basis.	Chief Officer Corporate Solutions	29-Jun-2021	
SRP.IA.10.15	IT equipment availability to support home working	<b>Q4 20/21:</b> It experiencing delays in sourcing laptops to July 2021. Digital services looking to re-provision equipment as a mitigation measure.	Chief Officer Corporate Solutions	31-Jul-2021	
SRP.IA.10.16	Risk assessment/Guidance on protective measures.	<b>Q4 20/21:</b> Glove use to control risk, not effective if touching multiple surfaces. 72Hr isolation review to be undertaken with support for H&S.	Chief Officer Place	30-Jun-2021	
SRP.IA.10.17	4,000 mobile devices issued to support home learning	<b>Q4 20/21:</b> Monitoring and tracking of devices to ensure devices are returned to school for school based learning.	Chief Officer Corporate Solutions; Executive Director Children, Young People and Partnerships	31-Jul-2021	

## SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p><b>Risk cause</b> The pace of change programme not achieving the savings against agreed timescales. The Change Programme does not achieve the projected savings</p> <p><b>Risk event</b> Delayed progress in applying various strands of the Change Programme including the Delivering Excellence framework.</p> <p><b>Risk effect</b> Slow or delayed proposals/savings arising from service</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate	<ol style="list-style-type: none"> <li>Change Programme including Delivering Excellence framework which addresses projected budget shortfalls. Got consolidated Change Programme following approval of 2020/21 budget. In arriving at the consolidated programme, we have removed savings proposals which were undeliverable or not able to achieve the savings indicated.</li> <li>Business Transformation Steering Group and Business Transformation Board oversight of change programme and direct changes to the change programme in light of external factors impacting the organisation. The most significant of which has been the COVID Pandemic during 2020/21.</li> </ol>	3	3	



	redesign, requiring the adoption of recover plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.	Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place				
--	---	--	--	--	--	--

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><b>Q4 20/21:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at next BTSG meeting on 7<sup>th</sup> June consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/34 to 2028/29.</p> <p>In turn this will support a report, via BTSG, to Council on 5<sup>th</sup> October 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> <li>• The Projections and key assumptions endorsed by BTSG</li> <li>• The projected gap between recurring expenditure and funding</li> <li>• A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and</li> <li>• Will also aim to set out initial projections for 2023/24 to 2028/29</li> </ul> <p>With further updates to BTSG in November 2021 and January 2022 supporting Council reports on 14 December 2021 and 15 February 2022</p>	Chief Executive	7-Jun-2021	
SRP.RA-02.05	Update to CMT and Council on impact of Pandemic on delivery of the change programme.	<p><b>Q4 20/21:</b> Council agreed on 17<sup>th</sup> November, during consideration of paper Financial Monitoring 2020/21 General Fund Revenue, that a review of the deliverability of savings targets for the current year as a consequence of the pandemic be progressed and reflected in the next monitoring report. The outcome of this work, which involved both the removal of some savings targets and mitigating underspends, is reflected in the Q3 Financial Monitoring report. The net impact on Reserves is nil.</p>	Chief Officer Corporate Solutions	30-June-2021	

### SRP.IR.07 Financial Sustainability

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p><b>Risk cause</b></p> <p>Reduction in long term funding from Scottish Government</p> <p>Increasing ageing population of over 75's</p> <p>Increasing population of 0-15 age group</p> <p>Rising customer expectations</p> <p><b>Risk event</b></p>	Chief Officer Corporate Solutions;	<p>1. There is an approved Capital Strategy and Reserve Strategy in place</p> <p>2. There is an approved budget for 2021/22</p> <p>3. There are 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.</p>	3	4	


	<p>Change Programme and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps COVID has created Significant divergence of budget for a range of services.</p> <p><b>Risk effect</b> A shortfall and or slow or delayed savings arising from the Change Programme. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>		<p>4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p> <p>5. 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.</p> <p>6. Chief Executive has emphasised the need for much needed control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate.</p>			
--	--	--	---	--	--	--


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><b>Q4 20/21:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at next BTSG meeting on 7<sup>th</sup> June consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/34 to 2028/29.</p> <p>In turn this will support a report, via BTSG, to Council on 5<sup>th</sup> October 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> <li>• The Projections and key assumptions endorsed by BTSG</li> <li>• The projected gap between recurring expenditure and funding</li> <li>• A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and</li> <li>• Will also aim to set out initial projections for 2023/24 to 2028/29</li> </ul> <p>With further updates to BTSG in November 2021 and January 2022 supporting Council reports on 14 December 2021 and 15 February 2022</p>	Chief Executive	7-Jun-2021	
SRP.IA.07.01	Develop Medium Term Financial Strategy	<p><b>Q4 20/21:</b> Programme to develop medium term financial strategy for next Council from May 2022.</p>	Chief Executive	30-Jun-22	



## 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><b>Risk cause:</b> Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Population growth and time lag to fund pressures on public services. Policy decisions by UK &amp; Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand Potential Economic shock arising from UK departure from EU Rising customer expectations</p> <p><b>Risk event:</b> Reducing grant settlement. Policies decisions at Government level not fully funded to Council's. Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates. Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery.</p> <p><b>Risk effect:</b> Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>1. Development of Medium Term Financial Strategy. 2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 3. Capital and Reserves Strategies in place. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions.</p>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<b>Q4 20/21:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at next BTSG meeting on 7 <sup>th</sup> June consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/34 to	Chief Executive	7-Jun-2021	


		<p>2028/29.</p> <p>In turn this will support a report, via BTSG, to Council on 5<sup>th</sup> October 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> <li>• The Projections and key assumptions endorsed by BTSG</li> <li>• The projected gap between recurring expenditure and funding</li> <li>• A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and</li> <li>• Will also aim to set out initial projections for 2023/24 to 2028/29</li> </ul> <p>With further updates to BTSG in November 2021 and January 2022 supporting Council reports on 14 December 2021 and 15 February 2022</p>			
--	--	--	--	--	--





## SRP.RR.02 The Long Term Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	<p><b>Risk cause</b></p> <p>A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area</p> <p>Reduced resources</p> <p>Leadership fit for the future</p> <p>Lack of clarity or clear compelling vision for the future</p> <p>Delay or shortfall in securing savings</p> <p>Lack of or not securing transformational change in service provision</p> <p><b>Risk event</b></p> <p>Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework</p> <p>Slow benefits realisation and budget savings</p> <p>Cuts in service provision rather than service transformation</p> <p><b>Risk effect</b></p> <p>Objectives of change not actually met</p> <p>Adverse impact on services</p> <p>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.</p> <p>Staff morale negatively affected, Government step-in Short term savings instead of transformation</p>	<p>Chief Executive; Executive</p> <p>Director Children, Young People and Partnerships; Executive</p> <p>Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>1. Financial Strategy and Change Programme</p> <p>2. Leadership from all elected members, Executive Team and Senior Leadership Group.</p> <p>2. Appropriated governance in place across the Change Programme.</p> <p>3. Links between Change Programme and Workforce Plans</p> <p>4. Resilience planning.</p> <p>5. Senior Leadership Group regularly considering Change Programme and budget position.</p> <p>6. Capacity to deliver change.</p> <p>7. BTB board structure#####</p>	3	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p><b>Q4 20/21:</b> The Medium Term Financial Strategy, Maintaining Financial Sustainability Financial Update propose that at next BTSG meeting on 7<sup>th</sup> June consider key planning assumptions for 2022/23 budget and those that will shape the MTFS for 2023/34 to 2028/29.</p> <p>In turn this will support a report, via BTSG, to Council on 5<sup>th</sup> October 2021 on MTFS and 2022/23 budget incorporating</p> <ul style="list-style-type: none"> <li>The Projections and key assumptions endorsed by BTSG</li> <li>The projected gap between recurring expenditure and funding</li> <li>A update to the proposed Corporate Solution (pre Scottish Government grant settlement) and</li> <li>Will also aim to set out initial projections for 2023/24 to 2028/29</li> </ul> <p>With further updates to BTSG in November 2021 and January 2022 supporting Council reports on 14 December 2021 and 15 February 2022</p>	Chief Executive	7-Jun-2021	

### SRP.RR.03 Legal and Regulatory Compliance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p><b>Risk cause</b> Current or new legislation applying to Midlothian Council</p> <p><b>Risk event</b> Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p><b>Risk effect</b> 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>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place; Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>1. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk based audit plan. 4. External Audit. 5. Range of external inspection. 6. Local Scrutiny Plan</p> <p>BTSG oversight of new legislation</p>	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.0 1	Legal & Regulatory Compliance	<b>Q4 20/21:</b> Chief Officers and Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-Mar-2021	
SRP.RA.03.0 2	Rights of the Child Bill	<b>Q4 20/21:</b> Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Governments new bill on the rights of the child is expected to have far reaching implications for public bodies. As a result the Council are monitoring progress of this to enable planning and any associated response to the new legislation with the bill as it develops. <b>UK Government Challenge to this on basis of powers of Scottish Government.</b>	All Directors	1-Nov-2021	
SRP.RA.03.0 3	Independent review of adult and social care	<b>Q4 20/21:</b> Impact to be fully understood, the impact has the potential to influence governance arrangements in IJB arrangements in the future. ( <a href="https://www.gov.scot/groups/independent-review-of-adult-social-care/">https://www.gov.scot/groups/independent-review-of-adult-social-care/</a> )	Joint Director Health and Social Work	31-Mar-2022	
SRP.RA.03.0 4	Heath Protection (Coronavirus) (Restrictions) (Scotland) Regulations 2020 due to expire on 30 Sep 2021.	<b>Q4 20/21:</b> CIMT oversight of organisation response throughout the pandemic continue to monitor external developments and assess and respond to their impact n Midlothian Council. CIMT are monitoring the future change to COVID restrictions.	Chief Executive	30-Sep-2021	


#### SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.04	<b>Risk cause</b> Employees not suitably trained/developed for the roles required of them. limited availability of qualified practitioners in certain	Chief Executive; Executive Director Children, Young People	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.	3	4	


	<p>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</p> <p><b>Risk event</b> Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change</p> <p><b>Risk effect</b> 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>and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p><b>Attendance / Wellbeing</b> 1. Implementation of the Wellness@Midlothian agenda including service-level wellness plans. 2. Implementation of Mental Health Framework. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Range of related policies and management guidance. 6. Development of progressive People Policies.</p> <p><b>Performance</b> 1. Council-side and Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Reviewed Code of Conduct. 4. Employee engagement sessions commencing in January following publication of the staff survey results. 5. Continued re-enforcement of all People Policies involving various communication methods. 6. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc.</p> <p><b>Organisational Change</b> 1. Revised Policy for Organisational Change including strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment. 3. Agreed protocol for accessing the Redeployment Fund.</p> <p><b>Conduct</b> 1. Resolution Policy encourages early intervention in workplace issues. 2. Professional standards and values to be re-enforced in structured format.</p> <p><b>Communication</b> 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>			
--	--	---	---	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04	Revisions to Service Workforce Plans	<p><b>Q4 20/21:</b> Revision to Service Workforce Plans and Action Plans are required as set out in internal audit report. Action is required in the following areas:</p> <ul style="list-style-type: none"> <li>• analysis of future workforce requirements and how this related to the Council's strategic objectives including financial priorities;</li> <li>• gap analysis and gap closing strategies; and</li> <li>• performance measures and target setting for evaluation of success in delivering the Workforce Plan.</li> </ul> <p>Service restructuring and COVID Pandemic have impacted the revision of Service plans. Revised work will be completed in this area as restructuring is concluded.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-Mar-2022	


## SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	<p><b>Risk cause</b> General Data Protection Regulation formulated by the European Commission.</p> <p><b>Risk event</b> The Regulation implemented on 25 May 2018.</p> <p><b>Risk effect</b> The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros whichever is greater.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Information Management Group</li> <li>2. Public Sector Network Compliance.</li> <li>3. Meta Compliance</li> <li>4. Information Management, awareness raising program (Private-i)</li> <li>5. General Data Protection Regulation Project plan implemented with close report.</li> <li>6. Public sector cyber security compliance</li> <li>7. Implementing Scottish Government Cyber Security Action Plan</li> <li>8. Mandatory e-learning for all employees and elected members.</li> <li>9. Data sharing arrangements on contracts being reviewed to ensure consistency in terms of health and social care contracts.</li> </ol>	3	5	




### SRP.RR.07 Care at Home

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p><b>Risk cause</b> 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><b>Risk event</b> Capacity of Community Support outstripped by demand</p> <p><b>Risk effect</b> 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>	Joint Director Health and Social Work; Head of Adult and Social Care; Head of Primary Care and Older People;	<ol style="list-style-type: none"> <li>Care at Home improvement action plan in place and near compaction</li> <li>Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level</li> <li>New Framework agreement in place with significant improvement in quality from Providers</li> <li>Flow management planning in development to maximise Care at Home capacity going forward</li> <li>Weekly provider meetings in place</li> <li>Additional locum team members recruited to for contingency cover</li> <li>New Leadership model in place</li> <li>Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place</li> </ol>	3	4	


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

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	<p><b>Risk cause</b> Many of the assets the Council own by their nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles &amp; buildings used to deliver services.</p> <p><b>Risk event</b> Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p><b>Risk effect</b> 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</p>	Chief Officer Corporate Solutions; Chief Officer Place	<ol style="list-style-type: none"> <li>There is provision in place within the capital plan for investment in the asset base.</li> <li>Asset register</li> <li>Conditional Survey</li> <li>Understanding of future asset needs</li> <li>Asset Strategy: <ul style="list-style-type: none"> <li>Roads</li> <li>Land</li> <li>Fleet</li> <li>Digital Service Network</li> <li>Digital Service hardware</li> </ul> </li> <li>Capital program - investment in estate.</li> <li>On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users.</li> <li>Introduction of Capital Plan and Asset Management Board</li> </ol>	4	5	

	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.					
--	--	--	--	--	--	--



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.	<p><b>Q4 20/21:</b> Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys.</p> <p>Continuing to develop property asset management plans, priority spend on basis of independent surveys.</p> <p>As result of Government guidance on Construction all summer works postponed resulting in the need for rescheduling of planned capital works.</p>	Chief Officer Place	31-Mar-2022	
SRP.RA.08.04	Reviewed Roads Asset Management Strategy	<p><b>Q4 20/21:</b> Roads Asset Strategy, work progressing to migrate to version 4. Information to be taken to capital board on future need for next 5 years.</p> <p>Work to take forward the Roads Asset Strategy will form a fundamental component of restructured services priorities.</p>	Chief Officer Place	31-Mar-2022	
SRP.RA.08.05	School Estate Strategy	<b>Q4 20/21:</b> Established Learning Estate Manager post and Executive Business Manager post within Education and Children's Services, to oversee operational delivery of School Estate Strategy. Estate Project Board established to oversee and track progress against agreed projects and delivery. Reports onto Council Capital Projects Board.	Executive Director Children, Young People and Partnerships	30-Jun-2021	

### 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><b>Risk cause</b> The Council not preparing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p><b>Risk event</b> 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><b>Risk effect</b> Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g. secondary school, main offices),</p>	Chief Officer Place	<p><u>Potential</u> sub risks include:-</p> <p>01 – Civil Contingencies Risk Register used to highlight key risks and record response,</p> <p>- Council's plans developed and maintained in response to identified risks,</p> <p>- Risk and Resilience Group support development, peer review and roll out of plans.</p> <p>02 – Establishment based incident response plans in place and maintained locally.</p> <p>03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations.</p> <p>04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.</p>	3	4	



	computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries		05 – Care for People Group meeting 3 weekly to continue support for Communities in response to COVID – 19 to establish and co-ordinate support for people on a multi-agency basis.			
--	---	--	--	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	<b>Q4 20/21:</b> Contingency Improvement Plan drafted and due to be shared with Risk and Resilience Group ahead of reporting to CMT for approval.	Chief Officer Place	31-Mar-2022	
SRP.RA.09.03	Business Continuity System	<b>Q4 20/21:</b> Business Continuity system successfully procured with cross service project group involved. System currently being built around existing Council systems ahead of role out to all services.	Chief Officer Place	31-Mar-2022	





### 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	<b>Risk cause</b> Code of conduct for Members and employees actions falling short of International Standards.  <b>Risk event</b> Failure in openness, accountability, clarity.  <b>Risk effect</b> Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life	Legal Services Manager	<u>Potential</u> sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non-compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement. 05 Standing Orders 06 Scheme of Administration	3	4	


### SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<b>Risk cause</b> Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.  <b>Risk event</b> Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place:	1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in December 2018, positive feedback with allocated funding.	2	3	

	<p>priorities.</p> <p><b>Risk effect</b> Policies not monitored could result in non-compliance with legislation Policies not align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p>	<p>Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>5. Community Safety Strategic assessment completed. 6. Procurement Strategy 2018 7. Local Procurement Strategy 2021. 8. Capital Strategy 9. Integrated Joint Board (IJB) Strategic Plan 10. IJB Strategic needs assessment</p>			
--	---	---	---	--	--	--


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.0 1	Parental Engagement Strategy	<b>Q4 20/21:</b> Education Service are developing a Parental Engagement Strategy which aims to ensure that all parents and carers are encouraged and supported to engage as partners in their children's learning, and to become involved in the life of the school their child or child they care for attends.	Executive Director Children, Young People and Partnerships	30-Sep-2021	
SRP.RA.11.0 2	Accessibility Strategy	<b>Q4 20/21:</b> Midlothian Council have a legal duty to prepare a strategy to increase the physical accessibility of the school environment, increase the access to the curriculum and improve communication, especially in relation to the provision of school information, for those pupils who have disabilities. Work on this is well established and will be reported on in quarter 1 2021/22.	Executive Director Children, Young People and Partnerships	30-Jun-2021	
SRP.RA.11.0 3	Neighbourhood Services	<b>Q4 20/21: Place Service has been working</b> with community representatives and the Charity Nesta to establish a new Neighbourhood Service aimed at working with Communities to deliver and meet the needs of Services.	Chief Officer Place	31-Mar-2022	
SRP.RA.11.0 4	Remote Working	<b>Q4 20/21:</b> Remote working policy – working to implement in conjunction with joint trades unions. Opportunity to review property estate linked to remote working.	Chief Officer Corporate Solutions	31-Mar-2022	


## SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p><b>Risk cause</b> Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place:</p>	<p>1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy.</p>	3	3	

	<p><b>Risk event</b> Persons exploiting opportunities to commit fraud Waste and errors. Changing risk landscape associated with remote working solutions.</p> <p><b>Risk effect</b> Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.</p> <p>Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance</p>	<p>Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness. 7. Implemented changes to business processes and procedures to maintain and enhance internal control. 8. Bi-annual updates to Audit committee on progress with recommendations noted in the annual governance statement.</p>			
--	--	---	---	--	--	--


### SRP.RR.13 Climate Change



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	<p><b>Risk cause</b> Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act</p> <p><b>Risk event</b> Council Services not responding to the Climate Change Act with sufficient pace.</p> <p><b>Risk effect</b> Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p>	Executive Director Children, Young People and Partnerships;	<p>1. Statutory requirement to report on compliance with the climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 4. Implementation of provisions of Internal Audit report approved by Audit Committee 1 May 2018. 5. BTB board for Climate Change to bring strategic focus and oversight of plans and progress. 6. Climate Change Strategy</p>	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.02	Recruitment of Climate Change Officer	<b>Q4 20/21:</b> The Council developed a Climate Change Action Plan part of its Climate Change Strategy approved by Council in August 2020, there is now governance to recruit a Climate Change officer. This role is seen as being instrumental in driving forward the Council's Climate Change Action Plan and reporting on progress against the plan.	Chief Officer Place	30-Sep-2021	


--	--	--	--	--	--


## SRP.RR.14.1 Scottish Child Abuse Inquiry

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	<p><b>Risk Cause:</b> Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p><b>Risk Event:</b> 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. 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><b>Risk Effect:</b> 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. We have request an extension for Parts B, C &amp; D of the last Section 21 to April 2020, which has been granted.</p> <p>To date there has been no evidence from the extensive file read to suggest there has been systemic abuse within our foster care system. File reading continues around foster care and residential care.</p>	Chief Officer Children's Services;	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry.</li> </ol> <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> <li>4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims.</li> <li>5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims.</li> <li>6. Identifying the need for guidance, protocol, templates etc should/if any claims be made against the council.</li> <li>7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants.</li> <li>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.</li> </ol>	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 1	Implementation of Project Plan	<b>Q4 20/21:</b> During lockdown a further extension was requested as the workers assigned to the abuse inquiry were not deemed critical workers therefore were not able to attend work.	Chief Officer Children's Services;	31-Mar-2022	
SRP.RA.14.0 2	Foster Care Case Study	<b>Q4 20/21:</b> In August 2020 2 full time members of staff were recruited to attend at work and undertake the task of file reading and preparing a report for the latest Section 21 in relation to 'Foster Care Case Study'. This significant piece of work which spans from 1930 to date requesting information around funding of foster carers, legal status/responsibility/ethos, children's background experience who were placed in foster care/ information on foster carers and the culture of the organisation. A report was submitted to the Inquiry team in September 2020 and to date we have received no feedback from the inquiry team around their findings or whether or not they wish a larger sample of file read. File reading continues. There is no evidence in our file read to date of foster carer files that there was systemic abuse occurring.	Chief Officer Children's Services;	30-Sep-2020	

### SRP.RR.14.2 Scottish Child Abuse Claims Project


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	<p><b>Risk Cause:</b> Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964)</p> <p><b>Risk Event:</b> Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The Claims Working Group has established a process ('Claims Procedure') for dealing with the claims.</p> <p><b>Risk Effect:</b> There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims</p>	Chief Officer Children's Services;	<p>1. Agreed further update to Council to keep them abreast of the current situation and potential implications around staffing and future financial costs.</p> <p>2. The Qualified One Way Costs Shifting (QOCS) is a change in legislation that will mean we cannot recover costs unless the pursuer has made a fraudulent claim or has been 'manifestly unreasonable' This basically takes away all risk for pursuers so if they lose they won't have to worry about paying the Council's costs. At the time of writing there remains no date for implementation of this piece of legislation.</p> <p>SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.</p> <p>3. Scottish Governments Redress Scheme</p>	4	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.2-3	Assess need to make financial provision	<b>Q4 20/21:</b> Legislation to create a scheme for survivors of historical child abuse in care in Scotland to apply for financial redress payments of up to £100,000, as well as access to apology and support, has been passed by the Scottish Parliament. The Redress for Survivors (Historical Child Abuse in Care) (Scotland) Bill. Survivors will be able to apply for a fixed rate redress payment of £10,000, or an individually assessed redress payment which will involve a more detailed examination of their experience. The individually assessed redress payment levels are set at £20,000, £40,000, £60,000, £80,000 or £100,000. Financial contributions are being sought by the Scottish Government from those involved in the care of the children at the time they were abused and COSLA has already offered to contribute £100 million to the scheme. The scheme will be open for applications as soon as possible and before the end of 2021.	Chief Officer Children's Services;	31-Mar-2021	

### SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p><b>Risk cause</b> Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increased by 100% between 2014 and 2039.</p> <p><b>Risk event</b> 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><b>Risk effect</b> Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place; Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> <li>1. Local development plan and supplementary guidance on developer contributions.</li> <li>2. Services planning future service provision on the basis of anticipated service demands</li> <li>3. The change programme</li> <li>4. Learning Estate Strategy, including ASN provision</li> <li>5. Capital Strategy</li> <li>6. Housing Strategy</li> <li>7. Joint needs assessment used to develop - IJB Strategic Plan</li> <li>8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth.</li> <li>9. City deal provides the opportunity to support inclusive growth.</li> <li>10. Increase capacity to support investment of growing population through Head of Development roles.</li> </ol>	3	4	


## 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><b>Risk cause</b> UK vote to leave the European Union</p> <p><b>Risk event</b> UK leaving the European Union</p> <p><b>Risk effect</b> The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail further economic growth.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>01 – EU Exit Working Group 02 – Taking a risk management approach to identifying and assessing anticipated impacts 03 – Working with a range of national and local bodies to inform preparatory arrangements. 04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.</p>	3	2	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.17.1-1	EU Exit Working Group	<b>Q4 20/21:</b> EU Exit group had been in abeyance until there was a need to re-commence. The group has been reconvened during quarter 4 to support assessment and monitoring of impact or potential impacts of exiting the EU.	Chief Officer Place;	31-Dec-2021	

## SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
-----------	---------------------	------------	-----------------------	------------	--------	-----------------

SRP.RR.19	<p><b>Risk cause</b> Failing to identify and rectify non-compliance with Health and Safety regulations.</p> <p><b>Risk event</b> 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><b>Risk effect</b> Serious injury of ill health impact on employees and or service users. 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.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>1 – Health Safety and Wellbeing Strategy 2 -Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations 3 - Comprehensive range of Health &amp; Safety Management &amp; Assessment based development opportunities for line managers 4 - Use of Health &amp; Safety Management Information System to enhance information transfer and organisational efficiency 5 – Comprehensive training programme in place to support those with responsibility for managing health and safety. 6 - Guidance and Risk assessment templates to support COVID 19 response. 7 – Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy. 8 - New risk assessment guidance and support for managers rapidly deployed in response to COVID 19 in line with associated Scottish Government guidance.</p>	3	5	
-----------	--	--	--	---	---	---


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.0 6	Delivery of Health, Safety and Wellbeing Strategy	<b>Q4 20/21:</b> A report is being prepared for CMT to consider a revised audit programme in support of the check phase of the Council's Health and Safety Management system. The planned programme had been impacted by the pandemic with resource switched to support manager/head teachers and prepare a range of bespoke guidance and risk assessment templates.	Chief Officer Place;	30-Sep-2021	

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


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	<p><b>Risk cause</b> Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% in addition the Scottish Government has made a commitment</p>	<p>Executive Director Children, Young People and Partnerships; Chief Officer</p>	<p>1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy</p>	4	5	



	<p>to increase the current provision of free early years care from 600 to 1140 hours.</p> <p><b>Risk event</b> 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><b>Risk effect</b> 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>	Place				
--	--	-------	--	--	--	--

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.20.01	1140 funding distribution	<b>Q4 20/21:</b> Monitor and influence the proposed funding distribution beyond 2021/22. Proposal for report to CoSLA leaders in June 2021.	Chief Executive; Executive Director Children, Young People and Partnerships; Chief Officer Corporate Solutions	30-Jun-2021	


### SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	<p><b>Risk Cause:</b> Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p><b>Risk Event:</b> 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><b>Risk Effect:</b> Access to Council systems by cyber criminals and foreign</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief	<ol style="list-style-type: none"> <li>1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan</li> <li>2. Cyber Essentials Plus Certification</li> <li>3. Public Sector Network Certification</li> <li>4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack</li> <li>5. Employing an Information Governance and Security Lead</li> <li>6. Implementing Scottish Government Cyber Security Action Plan</li> </ol>	3	5	


	<p>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.</p> <p>Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p>	<p>Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>				
--	--	---	--	--	--	--

## OPPORTUNITIES .


### SRP.OP.01 Shawfair


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for house-builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> <li>1. Shawfair Development Group.</li> <li>2. Legal agreement with developers to secure developer contributions (Section 75)</li> <li>3. Plan for entire community:</li> <li>4. Business and industrial provision, including small business incubator space.</li> <li>5. Circa 4000 new homes</li> <li>6. A school campus comprising Early Years, Nursery, Primary, Secondary &amp; Life Long Learning provision</li> <li>7. New Primary schools</li> <li>8. Public Transport infrastructure.</li> <li>9. Midlothian Energy Ltd (Joint Venture between MLC and Vattenfall)</li> </ol>	5	4	

### SRP.OP.02 Borders Rail


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Passenger numbers after three years of operation are above projections. The railway has been, and continues to be a catalyst for economic development, access to training and labour markets, tourism growth, environmental improvements must notably in town centres, and access to the countryside.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> <li>1. Monitored by Economic development.</li> <li>2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway.</li> <li>3. Timely submission of bids for approval by the Blueprint Group</li> <li>4. Close monitoring of approved funded projects.</li> <li>5. Borders rail subgroup Chaired by Midlothian Council Chief Executive.</li> </ol>	5	4	

### SRP.OP.03 Easter Bush - Penicuik


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

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A1	A702 Trunk Road Improvements	<b>Q4 20/21:</b> City Deal business case approved for Easter Bush expansion includes A701/A702 road scheme and sustainable active travel corridor to improve long term strategic access. On-going liaison with Edinburgh University and Transport Scotland within the context of City Deal.	Executive Director Children, Young People and Partnerships;	31-Mar-2021	

### SRP.OP.04 City Deal


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation. 200 Council Houses linked to the City Deal.	Executive Director Children, 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.	3	5	


### SRP.OP.05 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	Midlothian Council has been identified as the fastest growing Council's in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve all forms of	Chief Executive; Executive Director Children, Young People and Partnerships;	1. Community Planning Partnership 2. The Single Midlothian Plan 3. Strategic Housing Investment Plan (SHIP) 4. Local development plan 5. Capital Strategy investment of £0.8 Billion	5	5	

	<p>infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.</p> <p>This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing bracket, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.</p>	<p>Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	6. Economic Strategy			
--	---	---	----------------------	--	--	--

### SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty. .	Executive Director Children, Young People and Partnerships;	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. A701 High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets 4. Accelerating our ambition – Digital Strategy 5. 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.OP.A.07.01	Research and development	<b>Q4 20/21:</b> Replacement for Beeslack High school progressing with research being carried out with the University of Edinburgh to establish the impact of new school buildings on educational attainment.	Executive Director Children, Young People and Partnerships;	31-Aug-2023	



## **Social Housing Stock Reconciliation**

**Report by Kevin Anderson, Executive Director - Place**

**Report for noting**

### **1 Recommendations**

The Audit Committee is recommended to note the reconciliation of Council's Social Housing stock in progress and completions.

### **2 Purpose of Report/Executive Summary**

The purpose of this report is to provide members of the Audit Committee with details of the reconciliation of the Council's Social Housing stock in progress and completions.

The Housing stock 2019/20 completions were finalised at 73. However, in the preceding year's audited accounts the original report was of 29 units. Audit Committee requested reconciliation of the 2019/20 number with the capital expenditure in that year of £17.299m on new social housing provision.

**Date:** 17 September 2021

**Report Contact:** Kevin Anderson

**Tel No:** 0131 271 3102

[kevin.anderson@midlothian.gov.uk](mailto:kevin.anderson@midlothian.gov.uk)

### 3 Background

**3.1** The delivery of more affordable housing remains a high priority for Midlothian Council which is continuing its development programme with the provision of 1,000 new council houses in Midlothian over the term of this Council.

**3.2** The Strategic Housing Investment Plan (SHIP) sets out strategic investment priorities for affordable housing over a 5 year period to achieve the outcomes set out in the Local Housing Strategy (LHS). The SHIP was also the key document for identifying strategic housing projects towards meeting the Government's previous 50,000 affordable housing target which was increased to 110,000 in the 2021 Programme for Government.

**3.3** In the 2019/20 audited accounts, the earlier quoted figure of 29 new social housing completions in the report was accurate but has been corrected in the comparatives for the 2020/21 accounts to also include the 44 open market purchases as listed below.

- Woodburn Terrace, Dalkeith (13)
- Charpentier Avenue, Loanhead, (5)
- Newton Church Road, Danderhall (11)

**3.4** A subsequent query contrasted the 29 new builds reported against a reported capital expenditure on new social housing of £17.299m in 2019/20 as set out in the Financial Statements. The query challenged that even at 73, each house would therefore have cost £254,000 in that year.

While also allowing for the acquisition of 44 buy backs, the £17.299m expended in the year 2019/20 includes costs for those sites still under construction i.e. land purchases, developer contributions, staged payment of construction costs etc.

Spend for New Social Housing in 2019/20 was £11.255 million, with a further £6.044 million on Open Market Purchases, bringing total spend to £17.299m.

Scottish Government funding contribution is £57,000 per unit, with average total new build development costs at £249,000 per unit.

**3.5** Consequently, there is no direct correlation between capital expenditure in any financial year and the number of completions added to the let housing stock.

**3.6** Houses are only added to rental stock when construction completed and houses handed over for letting. The appended spreadsheet contains the detailed spend across financial years and is also broken down by site/year completed/still in progress. The table below details the housing stock in category and across the financial years 2017/18 – 2020/21.



**Housing Stock Rec 2017/18 - 2020/21**

	2017/18	2018/19	2019/20	2020/21
<b>No of properties</b>	<b>6,842</b>	<b>6,793</b>	<b>6,846</b>	<b>6,919</b>
<b>less:-</b>				
Council Houses Sold	-37	-1	0	0
Demolitions	-64	0	0	0
	<b>6,741</b>	<b>6,792</b>	<b>6,846</b>	<b>6,919</b>
<b>Plus:-</b>				
New Build Properties	44	33	29	119
Mortgage to Rent	1	2	0	0
Buy Backs	7	18	44	14
Conversion	0	1	0	0
Properties split into two rooms to provide temporary accommodation	0	0	0	32
<b>Adjusted Number of properties @ 31/03</b>	<b>6,793</b>	<b>6,846</b>	<b>6,919</b>	<b>7,084</b>

**New Social Housing spend 2017/18 - 2020/21**

2017/18	2018/19	2019/20	2020/21
3,937,847.88	5,825,783.56	11,254,560.81	12,049,951.82

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

##### **4.1 Resource**

There are no additional resource implications arising from this Report.

##### **4.2 Digital**

There are no digital implications arising from this report.

##### **4.3 Risk**

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

Following recent experience of short term increased inflation affecting the construction industry the current position may have a potential

impact on Council construction contracts on programme and potential cost implications.

#### **4.4 Ensuring Equalities**

An Integrated Impact Assessment (IIA) is not an applicable consideration for this report.

#### **4.5 Additional Report Implications (See Appendix A)**

## APPENDIX A – Additional Report Implications

### A.1 Key Priorities within the Single Midlothian Plan

The Social House Building Programme aligns with corporate priorities enabling 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 Social House Building Programme 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

Implementation by Management of the actions associated with previous Internal Audit recommendations in the Social Housing Programme 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, supporting the delivery of the Council's best value duties.

### A.5 Involving Communities and Other Stakeholders

Extensive consultation is carried out for the SHIP and Local Housing Strategy, involving the input of key stakeholders, including local organisations such as housing associations and private landlords as

well as the wider community. During consultation, it was widely recognised that investment in affordable housing as a key priority.

## **A.6 Impact on Performance and Outcomes**

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

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

## **A.7 Adopting a Preventative Approach**

Setting out a programme for development in the SHIP enables the investment of affordable housing to be carried out in a balanced approach in order that any investment takes into account the needs of the community. This includes those with particular needs such as extra care housing for older people, wheelchair housing or those Complex Physical or Learning Disabilities where provision of suitable housing would require less resourcing in comparison to traditional models of care.

## **A.8 Supporting Sustainable Development**

In December 2019, Midlothian Council declared a climate emergency and committed to make our activities net-zero carbon by 2030. Our aim is for all new homes to be zero emissions homes by 2026, consistent with the Scottish Government's vision for housing contained in Housing to 2040.

Midlothian Council's Climate Change Strategy adopted the Passivhaus standard as a design principle for our new homes, while other authorities adopted a Fabric First approach delivering net zero housing developments.

Furthermore, we have stopped installing gas boilers in our new homes, to meet our net zero commitments and avoid the cost of their replacement in the near future. Taking this longer term view is in line with our role as a local authority and a housing authority.

As part of Midlothian Council's drive towards becoming carbon neutral by 2030, our Building Maintenance Service has working with Changeworks to transform some of our least energy efficient homes. This is in order to reduce carbon emissions, reduce fuel costs and ultimately make our tenants homes more comfortable to live in.

We managed to secure funding from the Scottish Government which was matched by Midlothian Council to engage in a pilot Decarbonisation Project worth £1,883,300.

Transforming these homes' hot water and heating systems, this project will supply 182 houses with Solar Photo Voltaic panels with battery storage to store the energy for when it is needed by the tenant. As well as these measures we are also upgrading 32 of our properties that do not have access to natural gas supplies with these measures and adding a modern Air Source Heat Pumps (ASHP) to further reduce the cost of heating these "off-grid" properties.

Alongside these measures, our Building Maintenance Service are also incorporating a Fabric First approach. This focuses on energy efficiency works, incorporating internal/external wall insulation, underfloor and loft insulation. During the initial survey all windows and doors are assessed and if required then these are replaced with more energy efficient units.

All these measures offer wide-ranging benefits for residents and communities alike as it offers a lasting solution to tackling fuel poverty and addressing rising energy bills, as well as reducing the carbon emissions from our housing stock. They also prevent vulnerable households from having to live in dangerously cold homes, reducing pressures on our already overstretched health services.

The impact of this pilot in terms of energy usage is now being monitored and the Council anticipates the lessons learnt from this programme will be used to inform future initiatives to decarbonise our housing stock.



New Social Housing Projects Phase 2,3 &4

Site	Units	Code	Cumulative Spend pre 2017/18	Spend 2017/18	Spend 2018/19	Spend 2019/20	Spend 2020/21	Cumulative spend to 31/03/2021
Completed Pre 2017/18								
Phase 2 Site 37 Penicuik Hub	62	6510/12.**6.201	6,433,911.70	3,445.32	705.00	0.00	0.00	6,438,062.02
Phase 2 Site 2 Demolition	0	6510/12.**6.202	84,992.63	0.00	0.00	0.00	0.00	84,992.63
Social Housing Phase 2 Fees	0	6510/12.**6.203	616,002.91	0.00	0.00	0.00	0.00	616,002.91
Site 2 Woodburn Road	14	6510/12.**6.204	2,049,317.06	655.31	0.00	0.00	0.00	2,049,972.37
Site 42 Jackson Street, Pencuik	14	6510/12.**6.208	2,054,389.09	2,114.90	26,075.63	0.00	0.00	2,082,579.62
Site 18 Eastfield Drive, Penicuik	17	6510/12.**6.207	2,245,368.36	31,326.28	13,544.09	108.00	0.00	2,290,346.73
Social Housing Phase 2 All sites preparation	0	6510/12.**6.205	261,909.28	0.00	0.00	0.00	0.00	261,909.28
Site 9 Craigiebiel Depot	17	6510/12.**6.206	2,572,304.03	41,042.72	230.00	234.00	0.00	2,613,810.75
Site 108 Bonnyrigg Library	18	6510/12.**6.212	1,863,172.88	40,070.71	25,098.69	0.00	0.00	1,928,342.28
Site 51a Stobhill Road, Newtongrange	38	6510/12.**6.210	4,797,793.84	1,020,210.91	10,817.00	1,362.18	0.00	5,830,183.93
Site 60 Edgefield Road, Loanhead	41	6510/12.**6.211	5,121,887.90	6,386.34	66,246.18	54.00	0.00	5,194,574.42
Total	221		28,101,049.68	1,145,252.49	142,716.59	1,758.18	0.00	29,390,776.94
Completed 2017/18								
51b Stobhill Road	32	6510/12.**6.216	2,194,820.95	1,694,374.97	16,622.89	53,845.80	0.00	3,959,664.61
Site 41 Eastfield Farm Rd, Penicuik	12	6510/12.**6.209	2,071,503.05	356,323.12	69,902.15	54,093.53	19,378.00	2,571,199.85
	44		4,266,324.00	2,050,698.09	86,525.04	107,939.33	19,378.00	6,530,864.46
Completed 2018/19								
Site 23 Woodburn Terrace, Dalkeith	10	6510/12.**6.226	2,366.50	20,145.82	706,453.44	760,295.87	78,076.50	1,567,338.13
Site 119 Miller site	23	6510/12.**6.308	0.00	6,530.15	24,322.67	2,472,191.03	(1,936.25)	2,501,107.60
Total	33		2,366.50	26,675.97	730,776.11	3,232,486.90	76,140.25	4,068,445.73
Completed 2019/20								
Site 134 Paradykes Barratts	21	6510/12.**6.318	0.00	0.00	2,203.29	725,267.52	2,181,430.72	2,908,901.53
Site 115 Castlelaw Terrace, Bilston	8	6510/12.**6.306	0.00	23,693.83	19,244.59	898,797.76	87,581.31	1,029,317.49
Total	29		0.00	23,693.83	21,447.88	1,624,065.28	2,269,012.03	3,938,219.02
Completed 2020/21								
Site 118 Bellway site - Danderhall	47	6510/12.**6.307	0.00	280.02	3,249.18	12,212.00	1,313,265.28	1,329,006.48
Site 110 Clerk Street, Loanhead	28	6510/12.**6.219	22,014.34	94,587.01	382,027.76	2,266,405.51	1,751,735.70	4,516,770.32
Site 47 Kirkhill Road, Penicuik	21	6510/12.**6.213	814,107.14	13,192.61	(73,908.34)	1,968,341.60	1,191,052.91	3,912,785.92
Site 39 Crichton Drive, Pathhead	10	6510/12.**6.227	3,341.84	37,850.71	31,577.74	41,376.73	1,251,585.46	1,365,732.48
Site 144 - Barratts - Roslin	13	6510/12.**6.325	0.00	0.00	0.00	2,235.00	18,876.40	21,111.40
Total	119		839,463.32	145,910.35	342,946.34	4,290,570.84	5,526,515.75	11,145,406.60
Sites Still to be Completed								
Site 146 Bellway - Wester Cowden	27	6510/12.**6.326	0.00	0.00	0.00	300.00	15,592.20	15,892.20
Site 117 Hopefield Yard	16	6510/12.**6.305	0.00	209,846.67	159,629.67	4,633.64	26,025.18	400,135.16
Site 26 Buccleuch Street	10	6510/12.**6.319	0.00	0.00	2,546.55	76,562.61	97,101.07	176,210.23
Site 128 Millerhill Ph2 (mac mic)	48	6510/12.**6.314	0.00	0.00	1,545.14	180.00	2,143.00	3,868.14
Site 140 Dalhousie Mains Road (springfield)	70	6510/12.**6.324	0.00	0.00	0.00	3,645.80	23,925.55	27,571.35
Site 151 Dandara (Shawfair)	18	6510/12.**6.328	0.00	0.00	0.00	0.00	3,123.60	3,123.60
Site 122 83 High St Bonnyrigg (Coop Site)	21	6510/12.**6.310	0.00	1,425.56	369,986.84	106,612.39	41,551.36	519,576.15
Site 116 Newmills Rd, Dalkeith	92	6510/12.**6.223	1,840,841.85	35,963.45	793,605.12	415,473.08	336,046.69	3,421,930.19
Site 51C Stobhill Rd	25	6510/12.**6.303	3,709.98	795.59	285.65	300,120.00	14,789.91	319,701.13
Site 131 Burnbrae Rd coop	20	6510/12.**6.316	0.00	0.00	1,204.93	421,117.25	287,993.18	710,315.36
Site 53 - Morris Road	79	6510/12.**6.228	980,770.34	57,366.03	189,281.92	366,875.23	2,021,600.72	3,615,894.24
Site 130 Newbattle HS A	96	6510/12.**6.315	0.00	0.00	2,520,404.76	45,262.82	63,676.75	2,629,344.33
Site 114 St Mary's PS	44	6510/12.**6.304	1,784.83	2,034.90	(15.08)	23,088.12	10,651.77	37,544.54
Site 32/34 Newbyres Crescent	75	6510/12.**6.217	710,797.72	128,425.47	73,479.41	38,137.54	8,850.05	959,690.19
Site 109 Conifer Road, Mayfield	72	6510/12.**6.218	705,401.19	80,295.51	258,627.54	218,640.89	218,952.46	1,481,917.59
Site 148 Newton Church Road (DLC)	24	6510/12.**6.327	0.00	0.00	0.00	0.00	985,034.30	985,034.30
Site 121 Stobhill Depot Phase 2	50		0.00	63.64	108.88	0.00	0.00	172.52
Site 112 High Street, Bonnyri (Depot)	40	6510/12.**6.221	3,001.50	418.99	(3.10)	0.00	0.00	3,417.39
Site 149 - Barratt Danderhall	33	6510/12.**6.329	0.00	0.00	0.00	0.00	840.00	840.00
Site 150 - Barratt Roslin (Expansion)	53	6510/12.**6.330	0.00	0.00	0.00	0.00	1,008.00	1,008.00
Aborted projects	0	6510/12.**6.230	14,921.88	28,981.34	130,683.37	(22,909.09)	0.00	151,677.50
Total	913		4,261,229.29	545,617.15	4,501,371.60	1,997,740.28	4,158,905.79	15,464,864.11
	1359		37,470,432.79	3,937,847.88	5,825,783.56	11,254,560.81	12,049,951.82	70,538,576.86
Total Units Completed Phase 2, 3 & 4	446							
Plus units completed as part of Phase 1	864							
Total New Build Units Completed @ 31 Mar 21	1310							
Presented to Council in HRA Final Capital Outturn Report								
' Phase 2				3,401,887.90	1,198,456.40	1,359,154.53	7,932,663.41	
' Phase 3				535,959.98	4,627,327.16	9,895,406.28	4,117,288.41	
				3,937,847.88	5,825,783.56	11,254,560.81	12,049,951.82	
Buybacks	83		861,541.82	858,125.40	2,364,018.82	6,043,718.96	2,097,168.96	10,504,906.74

**Housing Stock Rec 2017/18 - 2020/21**

	2017/18	2018/19	2019/20	2020/21
<b>No of properties</b>	<b>6,842</b>	<b>6,793</b>	<b>6,846</b>	<b>6,919</b>
<b>less:-</b>				
Council Houses Sold	-37	-1	0	0
Demolitions	-64	0	0	0
	<b>6,741</b>	<b>6,792</b>	<b>6,846</b>	<b>6,919</b>
<b>Plus:-</b>				
New Build Properties	44	33	29	119
Mortgage to Rent	1	2	0	0
Buy Backs	7	18	44	14
Conversion	0	1	0	0
Properties split into two rooms to provide temporary accommodation	0	0	0	32
<b>Adjusted Number of properties @ 31/03</b>	<b>6,793</b>	<b>6,846</b>	<b>6,919</b>	<b>7,084</b>