Notice of Meeting and Agenda

Midlothian Council

Venue: **Virtual Meeting,**

Date: **Tuesday, 15 February 2022**

Time: **11:00**

Executive Director : Place

Contact:
Clerk Name: Ross Neill
Clerk Telephone:
Clerk Email: ross.neill@midlothian.gov.uk

Further Information:

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

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1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

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

4 Deputations

None

5 Minutes

Minute of Midlothian Council of 14 December 2021 submitted for approval as a correct record and Minutes of Meetings for approval, noting and consideration of any recommendations contained therein (as per Minute Volume)

6 Questions to the Council Leader

None

7 Motions

None

8 Public Reports

9 Private Reports

None

10 Date of Next Meeting

The next meeting will be held on 29 March 2022

Midlothian Council Minute Volume

Midlothian

Presented to the Meeting of Midlothian Council on Tuesday, 15 February 2022

Action Log

Midlothian Council
Tuesday 15 February 2022
Item No 5.2

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	Minute action	16/11/2021	Scope potential suitable sites for prospective crematorium development.	Chief Officer Place	TBC	Work is progressing in Planning Service.
2	Motion Amendment – Loanhead Football Club	16/11/2021	Update the Sports Needs Assessment from 2016 and report to future council meeting	Executive Director – Place/ Sport & Leisure Manager	TBC	Procurement of revised needs assessment in process.
3	City Deal	16/11/2021	Elected Members Briefing to be arranged	Chief Executive	January 2022	Seminar for elected Members held on 26 January 2022
4	Land Supply – Housing	14/12/2021	Provide a report to Council	Executive Director Place	15 February 2022	Delay to March Council cycle
5	Garage Site Report	14/12/2021	Provide a report to Council	Executive Director Place	15 February 2022	Delay to March Council cycle

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
6	Note of Meeting	14/12/2021	Midlothian Council to request a note of the meeting between Representatives of the Council with Cabinet Secretary for Finance and the Economy	Chief Officer Corporate Solutions	27/01/2022 Complete	Request for note of meeting made to Cabinet Secretary's office on 23 December 2021. Note of meeting circulated
7	Motion - Infrastructure	14/12/2021	Report to Council Strategic Investment Framework	Executive Director Place	TBC	Work has been commissioned and report shall be presented to Council when available.
8	Motion – Finance/ Scottish Budget	14/12/2021	Midlothian to write to Scottish Government in support of COSLA's statement and Midlothian's own position as a growing Authority	Democratic Services	15 February 2022	Letter sent 17 January 2022
9	Minute Action - Standing Orders Working Group	14/12/2021	Briefing on Standing Orders and The Code of Conduct	Monitoring Officer	15 February 2022	
10	Minute Action – Future Hybrid Meetings	14/12/2021	Updated Hybrid Meetings Report – Spring 2022	Chief Officer Corporate Solutions	TBC	
11	Minute Action - CCTV	14/12/2021	To Provide a Report outlining an expansion of sites for CCTV	Chief Officer Place	15 February 2022	Delay to March Council cycle

Financial Monitoring 2021/22 – General Fund Revenue

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Noting

1 Recommendations

a) Note the projected financial position and the associated risks with projections part-way through the financial year; and otherwise

b) Note the contents of the report.

2 Purpose of Report / Executive Summary

2.1 The purpose of this report is to provide Council with information on projections of performance against service revenue budgets in 2021/22 and details of material variances against budget. The projected budget performance figures shown in appendix 1 result in a net underspend of £2.600 million for the year which is 1% of the revised budget.

2.3 The projection of the General Fund Balance at 31st March 2022 is predicated on the financial impact of the Covid-19 Pandemic continuing to be met from the available funding, whether ring fenced for specific purposes, or from the general funding provided.

Date: 25 January 2022
Report Contact:
Gary Fairley, Chief Officer Corporate Solutions

gary.fairley@midlothian.gov.uk 0131 271 3110

3 Background

3.1 This report encompasses all performance against revenue budget including additional costs incurred and projected lost income due to the Covid-19 pandemic.

3.2 The main areas of projected service budget variances projected at quarter 3 are outlined below and covered in more detail at appendix 2. As ever, projections are difficult in some areas and come with a degree of risk albeit reduced risk from Quarter 2. The continued exceptional operating environment across many services during 2021/22 only adds to this.

<u>Projected Overspends</u>

- A higher than planned value of works relating to the repair and maintenance of the Council's operating fleet is being externally contracted giving rise to a projected adverse variance against budget of £0.304 million, an improvement from the positions reported at earlier quarters. Management action is in place to carefully manage spend in this area and also to accelerate service review work that is underway;
- As reported in earlier quarters the annual review of Insurance premiums as provided for in the contract, alongside some potentially higher value new claims received in 2021/22, gives rise to a projected overspend now at £0.629 million. The main drivers for increased premiums are the Council's claims experience and a general market pressure felt across the sector. The contract is due for re-tendering in July 2022 and preparatory work is underway. During quarter 3 two new high value claims dating back to the 1970's and 1980's were received and have necessitated making a provision;
- Additional young people with additional support needs identified after the 2021/22 budget was set. Unbudgeted cost is estimated at £0.464 million;
- The Council elected to withdraw from the partnership agreements with Scottish Government for the Employability Pipeline project and Social Inclusion programme. As a consequence grant monies of £0.144 million received are required to be repaid.
- As implementation of the Equipped for Learning project continues a detailed assessment of the allocation of costs between the revenue and capital accounts has resulted in an increase of £0.220 million in cost attributable to the revenue account. Overall, the cost of delivery of the programme remains within original estimates.

These are more than offset by favourable movements against budget:

- The impact of vacant posts across the Council of £2.075 million. Many of these are posts are within the scope of the MTFS Management Review proposals and will be removed from the Council’s staffing establishment as reviews are progress to completion;
- Latest projections of actual pupil numbers across the spectrum of learning settings for children and young people are lower than provided for in the budget thus giving rise to a positive variance in Education of £1.608 million;
- Pressure on Family Placement and Residential Respite budgets gives rise to a positive variance of £0.331 million. Again, projections will be very sensitive to change as the year progresses;
- When the budget was set it was estimated that the Council would receive £0.625 million of the £37.6m undistributed sum for the Teachers Induction Scheme as shown in the Finance Circular. The quantum distributed has risen to £53.306 million and once distribution methodology is applied the Council receives £0.425 million more than budgeted.

3.3 Relevant senior officers are required to deliver recovery actions at pace for the service areas that are projecting overspends and accordingly it is expected that pressure in these areas may continue to reduce over the remainder of the year once the impact of the recovery action is validated.

3.4 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 and it is anticipated that any funds remaining at 31 March 2022 will be fully utilised in 2022/23 to mitigate the impact of the pandemic and support increased service costs across Midlothian.

3.5 The provision for pay awards included in the approved budget approved reflected the Scottish Public Sector Pay Policy for 2021/22 published at the time and as members are aware Government subsequently revised the pay policy. The pay position projected at quarter 3 is based on the agreed settlement for Local Government Workers, the Scottish Joint Council bargaining groups and the current offer made to teachers and other staff who are covered by the Scottish Negotiating Committee for Teacher bargaining group. Although these awards / provisions are greater than the provision made in the approved budget the additional £0.675 million (£40 million nationally) funding provided in the Local Government Finance (Scotland) Order 2021 was applied to provide an increased provision in the revised budget for pay awards. Furthermore as part of a shared funding package to support additional pay costs of £48 million nationally the Scottish Government provided £30 million nationally, of which Midlothians share is £0.506 million.

4 Delegation of resources to Midlothian Integration Joint Board

The approved budget provided for the allocation of £47.724 million to the Midlothian Integration Joint Board (MIJB) for the provision of delegated services. The application of new Scottish Government funding and other minor technical adjustments to this allocation during the year to date increase the allocation to £50.595 million. The allocation will be increased further to reflect agreed pay awards.

In accordance with the Integration Scheme the MIJB is required to deliver delegated services within the budget allocations from the Council and NHS Lothian and where any overspend is projected to put in place a recovery plan to address that. As a last resort the integration scheme allows for the MIJB to seek additional financial support from its partners, either by way of an additional budget allocation or by "brokerage" (provision of additional resources in a year which are repaid in the following year).

Additional costs incurred by the MIJB in response to the Covid-19 pandemic are expected to continue to be funded by government and accordingly at this time the expectation is that delegated services will be delivered within the allocations provided and so no provision has been made for an additional budget allocation from the Council.

Financial Monitoring reports covering all of the MIJB activity are presented to the Integration Joint Board and are available on the committee management section of the Council website:-

[Midlothian Integration Joint Board (cmis.uk.com)]

5 Projected General Fund Reserve

The projected balance on the General Fund as at 31 March 2022 reflects the utilisation of fiscal flexibilities and release of non-committed earmarked reserves to support setting a balanced budget for 2022/23. Further details are set out in the Medium Term Financial Strategy – 2022/23 Budget report also on today's agenda.

Accordingly these cross year elements are reflected in the projected General Fund Balance at 31 March 2022 and as the tables below set out, are set aside as committed in 2022/23:

The table below sets out the projected position for the General Fund reserve:-

	£ million	£ million
General Reserve at 1 April 2021		**6.358**
Planned movements in reserves		
Council Transformation Programme Costs	(0.707)	
Severance Costs	(0.089)	
Supplementary estimates	(0.060)	
Other movements	0.291	

	(0.565)
Fiscal Flexibilities (Loans Fund Repayment Holiday and Loans Fund Review)	3.326
Projected underspend per appendix 1	2.600
Projected General Fund Balance at 31 March 2022	**11.719**

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

	£ million
Projected General Fund Balance at 31 March 2022	**11.719**
Earmarked for specific purposes	
Council Transformation	(0.977)
Enhancement to Reserves earmarked for training	(0.113)
Set aside to balance 2022/23 budget (as detailed in budget report)	(5.326)
Projected General Reserve at 31 March 2022	**5.303**

The Reserves Strategy approved by Council on 12 February 2019 needs the Council to maintain an adequate level of General Reserve to provide a contingency for unforeseen or unplanned costs and that in the financial context at that time approve the adoption of 2% of the approved budgeted net expenditure (excluding resources delegated to the IJB) to be considered a minimum. This equates to £3.650 million. Council also agreed that where projections indicate that should the 2% minimum General Reserve balance be breached an immediate recovery plan be implemented to recover the position, failing which, the next available budget would need to provide for the restatement of reserve position.

The projected General Reserve of £5.303 million is above the minimum set in the Reserves Strategy but will only remain that way if there is no further adverse performance against budget or any further draw on reserves. There is also the continued uncertainty over the financial impact of the pandemic and funding assumptions together with essential response costs relating to weather conditions during the winter period.

Similarly there is an expectation that there will be a continued recovery in the service overspends projected at quarter 3. The impact of this recovery action will be reflected in future projections when they are validated.

6 Report Implications (Resource, Digital and Risk)

6.1 Resource

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

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

6.2 Digital

Increased reliance and investment in digital solutions and digital first solutions will be a key element of future plans.

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

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

At this point in the financial year there remains a heightened risk that actual costs and income level may vary across the remainder of the financial year. The projected financial position could also deteriorate if local or national restrictions were to be reintroduced. In additional the risk of adverse weather has the potential to create pressure on service budgets over the remainder of the year

There are a some areas where effective forecasting of spend against budget is hindered due to ineffective feeder systems or incomplete service information which in previous years has resulted in previously unreported or significantly adjusted variances at the financial year end. Financial Management CMT on 11th August considered these areas and is continuing to support actions to address the underlying issues and mitigate the risk associated with them.

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. And so presents a risk that would further reduce reserves from those currently projected. Further financial obligations may also arise as the implications associate with the The United Nations Convention on the Rights of the Child (Incorporation) (Scotland) Bill, which has yet to secure Royal Assent , are more fully understood.

6.4 Ensuring Equalities

As changes to existing plans are developed the assessment of the impact of these proposals in relation to their impact on equalities and human rights will be carried out. This will help to ensure wherever possible that there are no negative impacts on equality groups or potential for infringement of individuals’ human rights from the any of the proposals.

6.5 Additional Report Implications

See Appendix A

Appendices

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

The exiting financial plans support the delivery of the key priorities in the single Midlothian Plan. As the impact on the Council of the pandemic and recovery continues to unfold over the financial year any changes in the availability and allocation of resources will need to be considered in parallel to the actions proposed to continue to delivery 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

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

The development of the Medium Term Financial Strategy reflected a community consultation exercise carried out in 2019 which has also helped shape the drafting of the "Midlothian Promise" and the early development of the Council's Longer Term Financial Strategy.

In addition there is continues engagement with the recognised Trade Unions on the financial position.

A.6 Impact on Performance and Outcomes

The Financial Strategy facilitates decision on how Council allocates and uses its available resources and as such has fundamental implications for service performance and outcomes. The financial consequences of the pandemic will impact on the availability and allocation of resources in pursuit of key outcomes as set out in the Single Midlothian Plan for both the immediate and longer term and therefore the ability of the Council to continue to deliver services in a financial sustainable manner.

A.7 Adopting a Preventative Approach

Maintaining the effectiveness of the Financial Strategy will support the prioritisation of resources to support prevention.

A.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report and we will work to mitigate as far as feasible any sustainability issues which arise as a consequence of any of the changes to existing plans.

Appendix 1-2 financial tables

MIDLOTHIAN COUNCIL

Appendix 1

GENERAL FUND 2021/22

Performance against budget

Function	Approved Budget	Revised Budget Expenditure	Revised Budget Income	Revised Budget Net £	Outturn £	(Underspend) / Overspend £
Management and Members	2,054,529	1,971,404	0	1,971,404	1,942,404	(29,000)
Place						
Corporate Solutions	20,955,751	49,199,086	(24,721,931)	24,477,155	24,141,155	(336,000)
Place	30,446,779	48,204,745	(12,072,393)	36,132,352	36,156,352	24,000
Central Costs	3,085,352	6,305,585	0	6,305,585	6,934,585	629,000
People and Partnerships						
Midlothian Integration Joint Board	47,723,814	67,216,875	(16,622,065)	50,594,809	50,594,809	0
Non-Delegated Services - Sport and Leisure, Community Safety and Welfare Rights	2,122,353	7,629,384	(5,387,562)	2,241,822	2,289,822	48,000
Childrens Services, Partnerships and Communities	19,336,672	22,177,016	(418,319)	21,758,697	21,231,697	(527,000)
Education	103,459,243	140,339,565	(25,282,187)	115,057,379	113,071,379	(1,986,000)
Lothian Valuation Joint Board	571,315	571,315	0	571,315	571,315	0
Non Distributable Costs	898,936	974,232	0	974,232	974,232	0
GENERAL FUND SERVICES NET EXPENDITURE	230,654,744	344,589,206	(84,504,457)	260,084,750	257,907,750	(2,177,000)
Loan Charges	2,492,000	2,492,000	0	2,492,000	2,494,000	2,000
NDR Discretionary Relief	70,300	70,300	0	70,300	70,300	0
Investment Income	(110,736)	0	(110,736)	(110,736)	(110,736)	0
Allocations to HRA, Capital Account etc.	(5,248,308)	(5,248,308)	0	(5,248,308)	(5,248,308)	0
	227,858,000	341,903,198	(84,615,193)	257,288,006	255,113,006	(2,175,000)
less Funding:						
Scottish Government Grant	(172,381,000)	0	(181,347,495)	181,347,495	181,772,495	(425,000)
Council Tax	(55,477,000)	0	(55,777,000)	55,777,000	55,685,000	0
Utilisation of Reserves	0	341,903,198	(321,739,688)	20,163,511	17,655,511	(2,600,000)

Item 8.1

Appendix 2

Financial Monitoring 2021/22 – General Fund Revenue – Material Variances

Place Directorate

Corporate Solutions

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Vacancies and Performance Factor	Staff turnover and vacancies.	(142)	(226)	(336)	The Corporate Solutions Management review is progressing and will be finalised during 2021/22. Vacancies have been held in advance of implementation of the formal service review. Movement between Q2 and Q3 relates to slippage in filling vacancies.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Service.	62	10	0	
Net Underspend		**(80)**	**(216)**	**(336)**	

Place

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Vacancies and Performance Factor	Staff turnover and vacancies.	151	(203)	(367)	The Place Management review, with a savings target of £0.350m, is now at implementation stage. Vacancies across the service have been held to offset this savings target in the current year. The in-year movement relates to updated projections for vacancies across the service.
Travel & Fleet Services	Cost of vehicle repairs mainly relating to external works. Partially offset by vacancies within the service.	406	394	304	The budget for vehicle repairs carried out directly or by contractors is provided for as part of the overall Travel and Fleet Services gross budget of £3.1 million. The next stage of the service structure review will focus on fleet services. Budget recovery measures have been implemented.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Trade Waste	The external customer base was on a downwards trend pre-covid. The pandemic has exacerbated this with fewer businesses to service.	0	0	175	As the longer term implications of the pandemic become clearer service provision will be reviewed. Prior to Q3 sufficient information to make an accurate projection was not available. This has now been resolved.
Waste Disposal	Actual tonnage exceeds budgeted. One-off cost reduction relating to resolution of a contract with a previous contractor.	0	0	209 (96)	The 22/23 budget incorporates projections on waste tonnages. Over the course of the year detailed and complex work has been ongoing with the City of Edinburgh Council to agree a basis for financial forecasts. During Q3 work has gotten to a place to allow this to be reported with sufficient certainly.
Homelessness	Increased provision of supported temporary accommodation at Klibreck and Eastfield has resulted in increased concierge costs.	63	0	0	Forecast additional costs at Q1 are now offset by underspends against budget elsewhere in the service.
Travelling Peoples Site	Shared costs with East Lothian Council exceed budget.	28	22	17	Arrangements with East Lothian Council at this shared site facility are being reviewed with a view to reducing ongoing costs.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Service.	24	3	(12)	
Gross Overspend		**672**	**216**	**230**	
Offset by:					
Housing & Homelessness	The use of Bed and Breakfast places ceased in November 2020 resulting a projected saving of £0.273m. This is offset by an adverse variance of £0.067m on the fixtures and fitting Budgets mainly because of essential COVID safety measures.	(127)	(204)	(206)	The projection for additional fixtures and fittings costs reduced in Q2 reflecting the impact of COVID measures in place.
Net Overspend		**545**	**12**	**24**	

People and Partnerships Directorate

Health and Social Care - Non-Delegated Services - Sport and Leisure, Community Safety and Welfare Rights

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Management Review	There is an outstanding Management Review target. Delayed implementation has had a negative impact.	115	50	50	The Service Review is progressing and the remaining target will be secured for financial year 2022/23.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Service.	9	9	(2)	
Net Overspend		**124**	**59**	**48**	

Childrens Services, Partnerships and Communities

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Children's Services					
Residential and Day Education Placement	Over the past year there has been a slight increase in residential placements required for our younger children (5 -10) years in particular alongside some placements continuing for longer than previously forecast due to COVID restrictions. Our ethos remains that where possible and safe all children and young people shall remain in Midlothian.	77	133	88	This continues to be a high risk and uncertain area. Individual placements can be both uncertain and expensive. As a consequence there is a risk of forecasts changing significantly as the year progresses. COVID has meant that some young people have not been able to move on to college or their own tenancy as quickly as hoped. Significant investment has been directed at supporting many children and young people via youth workers to ensure they remain at home and in education. Work is ongoing to consider alternative approaches for this age group but a key priority is to care for and educate young people within their own community. The longer term impact of Covid on children and young people has still not been fully appreciated and the need

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
					to future plan to ensure the council has sufficient resources to support those who have been adversely affected via their learning, mental health and emotional and social wellbeing cannot be underestimated.
Gross Overspend		**77**	**133**	**88**	
Offset by:					
Family Placements	There has been a reduction in External Foster Care placements which are more expensive than our internal provision. Furthermore, there has been a fall in Kinship care since the start of 2021.	(181)	(275)	(242)	Costs relating to adoptions can be difficult to project due to uncertainty of court dates for hearings and granting of adoptions and also the complex nature of the work. This work has been impacted by Covid with regard to delayed court hearings. We therefore need to be mindful that the underspend could be consumed with a few adoption orders being granted or children needing to go to external placements. The recruitment of additional foster carers has been impacted by Covid. Resources are at capacity which may result in more external placements being required.
Non-residential services commissioned and provided for Children with and without disabilities	Taxi costs for children without disabilities. Residential Respite	(33) (114)	(19) (125)	(4) (89)	A review of all taxi spend across Childrens Services and Education was underway pre-COVID. However, resources were subsequently realigned to other areas of critical work. Current restrictions continue to have an impact with lower than usual taxi spend as children and young people cannot move between schools or placements. Additional support packages for children or young people with a disability are a key part of their care plan and pilots have been taking place to ensure support required is provided within local communities. However, the impact on families when children are unable to have mini breaks or receive additional support from other services remains a concern and the pressure on families is very real and challenging to manage. Additional spend via the MARG budget for 1:1 support in part contributes to an overspend in MARG and an underspend in

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
					commissioned services. Budgets in this area are being re-aligned.
Vacancies and Performance Factor	Staff turnover and vacancies.	(29)	(33)	(230)	Movement between Q2 and Q3 relates mainly to vacancies in Residential Services and at Hawthorn.
Other non-material variances	Miscellaneous over and underspends covering the remaining areas of the Service.	(74)	(34)	(5)	
Net Underspend		**(354)**	**(353)**	**(482)**	
Partnerships and Communities					
EU Funded Projects	The Council has withdrawn from the partnership agreements with Scottish Government for the Employability Pipeline project and Social Inclusion programme. £0.144m of grant received will be repaid.	0	144	144	The decision to withdraw was a consequence of an inability to agree changes to target outcomes, comply with retrospective European Social Fund rule changes and meet the 98% compliance rate in terms of participant evidence for vulnerable client groups.
Gross Overspend		**0**	**144**	**144**	
Vacancies and Performance Factor	Staff turnover and vacancies.	(50)	(75)	(113)	
CLL Running Costs	Due to some services not fully operating running costs will be lower than budgeted.	(27)	(92)	(76)	Solutions around ensuring we get back to fully operating groups are underway with clear targets set in the new CLD Plan.
Net Underspend		**(77)**	**(23)**	**(45)**	
Service Net Underspend		**(431)**	**(376)**	**(527)**	

Education

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Additional Support Needs	Additional young people with support needs were identified after the 2021/22 budget was set.	190	358	464	The review of our ASN service is ongoing and temporary additional staff have been appointed to support this work. A report will be prepared for members which will set out the current and projected service need. This will also inform how the budget will be set going forward and what information is required to allow that to happen. The ASN review is also linked to the wider review of the DSM scheme. The overspend has provided new specialist provision for young children across 5 primary schools, additional secondary school ASN provision, an increase in therapeutic services and an increase in outdoor learning experiences for some of our most vulnerable children and young people. The overspend represents best value when compared with placing children externally and also ensures that our children are supported within their local communities.
Equipped for Learning Project	Costs properly chargeable to the revenue account exceed the initial assessment of cost split between the revenue account and the capital account for the project.	0	0	220	The initial estimated made a number of assumptions on the split between costs that would be treated as capital and those that would be revenue. The variation reflects the require accounting treatment of the services that have been procured. The overall delivery costs of Equipped for Learning remains in line with the original cost envelope.
Gross Overspend		**190**	**358**	**684**	
Offset by:					
Schools	In the Primary sector the current projection of actual school numbers for the current school year is 93 lower than secured in the approved budget. In addition there are projected underspends in school settings, after allowing for a 1% carry forward under current DSM rules.	(573)	(752)	(818)	Uptake of school places in the Primary Sector was impacted by a high level of P1 deferrals. Numbers in the secondary sector are almost exactly in line with secured budgets.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Early Learning and Childcare	Vacancies and lower than budgeted absence across settings. Approved budget providing for 110 more pupils than attending.	0 0	(688) (767)	(745) (790)	Projections are based on existing ELC setting numbers and may increase during the remainder of the financial year. Pupil number projections across Education are being reworked and will feed into the Medium Term Financial Strategy cost projections. Detailed work on the Early years delivery model is also ongoing and will inform financial projections.
Home to School Transport – Primary and Secondary	Projected costs using the latest contract list are lower than budgeted.	(238)	(60)	(76)	Further contracts in place at the start of the 2021/22 academic year reduced the projected underspend.
Vacancies and Performance Factor	There are a number of vacancies across the Education service partially offset by higher than budgeted spend on maternity cover in schools.	(199)	(593)	(241)	Strict vacancy control is applied with management action in place to minimise any impact on frontline service provision. Movement between Q2 and Q3 mainly relates to the volume of maternity leave in the Primary sector.
Net Underspend		**(820)**	**(2,502)**	**(1,986)**	

Management and Members

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Vacancies and performance factor	Projected underspend due to vacancies and cost of Members.	(17)	(23)	(29)	
Net Underspend		**(17)**	**(23)**	**(29)**	

Other

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
Council Tax Income		71	92	0	Council Tax income growth of £1m was reflected in the 2021/22 budget reflecting an increased Band D rate and also projected increases in chargeable dwellings in Midlothian. Forecast increases in yield are now being seen.
Scottish Government Grant – Teachers Induction Scheme	When the budget was set it was estimated that the Council would receive £0.625m of the £37.6m undistributed sum in the Finance Circular. The quantum distributed has risen to £53.306 and once distribution methodology is applied the Council receives £0.425m more than budgeted.	0	0	(425)	Costs associated with employing probationary teachers are covered in the Education budget.
Loan Charges		0	(176)	2	Forecast Capital Expenditure for 2021/22 has increased from projections at Q2 thus giving rise to additional borrowing costs.
Central Costs - Insurances	The annual review of premiums due on 1st July each year that is inherent in the Insurance contracts has resulted in a considerably higher increase than expected when the budget was set giving rise to an adverse variance of £0.196m.	196	196	196	The Councils appointed Insurance Broker has supported the Council to minimise increases where possible. The position reached is reflective of the position across the whole Local Authority Insurance market.

Description of Variance	Reason for Variance	Quarter 1 £000	Quarter 2 £000	Quarter 3 £000	Additional information / Action taken
	During this financial year a number of potentially high value claims have been made on the Council giving rise to possible costs which are included in the Q3 projection.	89	183	433	Movement between Q2 and Q3 mainly relates to two new high value claims dating back to the 1970's and 1980's. Also, during Q3 there have been 3 new claims with expected settlement costs greater than £10,000 and 17 new claims with settlement costs between £1,000 and £10,000. This sum remains a provision at this point. As claims are made and progress the loss adjusters will continually refine projected costs as information on the likelihood of settlement costs emerges.
Net Overspend		**356**	**295**	**631**	

Housing Revenue Account
Revenue Budget 2021/22 – 2022/23 and Capital Plan 2021/22-2026/27

Report by Gary Fairley, Chief Officer Corporate Solutions.

Report for Decision

1 Recommendations

Council is recommended to:

- Note the contents of this report;
- Approve the reallocation of the £40 million approved budget for Off-Shelf New Build Purchases to be split equally between New Social Housing Phase 4 and Housing-Led Town Centre Regeneration.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Council with:

- A summary of expenditure and income to 20th December 2021 for the Capital Plan and a projected outturn for both the Housing Revenue Account (HRA) and Capital Plan for 2021/22;
- An update on the Revenue Budget for 2022/23;
- An update on the Capital Plan for 2022/23-2026/27.

The summarised financial performance for 2021/22 is:

- Capital Investment in the year totalling £45.559 million;
- A net underspend of £0.949 million on the Revenue Account;
- The HRA Reserve at 31st March 2022 is projected to be £28.579 million.

The HRA Capital Plan 2022/23-2026/27 provides for:

- £135.558 million for Phases 2-4 of New Social Housing;
- £78.819 million for investment in existing stock and provision of temporary accommodation.

The Revenue Budget Reflects:

- An update of the financial model;
- A 0% rent increase for 2022/23 as approved at Council 14th December 2021;
- A projected HRA Reserve of £32.659 million as 31st March 2023, which will be required finance the majority of the existing investment commitment and is projected to reduce to £0.991 million at 31st March 2037.

Date 21st January 2022

Report Contact:
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3 Background

3.1 Capital Plan 2021/22

The Capital Plan Budget has been revised to reflect the current profile of spend as shown in appendix B1. Capital investment in the year is projected to be £45.559 million and given the revised spend profile there are no material variances to be reported.

3.2 Revenue Account 2021/22

The underspend reported to Council on 16th November was £0.717 million, this has increased by £0.232 million to £0.949 million as shown in appendix B2. This is due to reflection of the most up-to-date version of the HRA capital plan including the New Social Housing Delivery plan and the £25 million Capital Financing from Current Revenue approved at Council 14th December 2021 giving rise to lower in-year borrowing costs of £0.180 million.

The HRA general reserve balance is projected to be £28.579 million at 31st March 2022, which is committed to finance existing investment commitments to 2036/37.

3.3 Capital Plan 2022/23-2026/27

The Housing Revenue Account Capital Plan, approved on 29th June 2021 allowed for investment of £152.426 million for Phase 2 to Phase 4 of New Social Housing and £40 million for the off-shelf purchase of new build units.

There are currently no opportunities to utilise the £40 million budget for off-shelf new build purchases, however additional sites have since been identified for new social housing and the project is also subject to increasing costs due to the introduction of the passivhaus standard and inflation therefore it is recommended to transfer £20 million of this budget to the New Social Housing budget with the remaining £20 million to be set aside for Housing Led Town Centre Regeneration Costs. Projected spend for the New Social Housing is £36.868 million for 2021/22 and £135.558 million for 2022/23-2026/27, which includes the additional £20 million allocation.

Retaining rents for 2022/23 at current levels together with a longer term planning assumption of average rent increases of 1.10% per annum will continue to support current investment in New Social Housing and also in existing stock with reserves modelled to fall to a contingent level of £0.991 million by 2036/37.

The HRA Capital Plan is detailed in appendix B3 and has been amended to reflect the latest estimated costs of ongoing and planned projects. There are no material changes to these.

3.4 Revenue Account 2022/23

The HRA revenue model has been updated and projected forward to 2036/37 and reflects the revised Capital plan as well as the following key assumptions:

- The borrowing cost of the capital investment detailed in appendix B3 together with estimated investment in existing properties over the remaining years of the projection;
- The impact on rental income stream as a result of the rent freeze for 2020/21 and 2021/22;
- £25 million for Capital Financing from the Current HRA Revenue Reserve;
- Projected provision for inflation over future years as per the GDP Deflator and BCI Tender Prices Index;
- The longer-term requirement that the rents for new build properties will converge with that of the existing stock.

These together with a number of other minor adjustments to the previous financial projections confirm that the HRA can continue to support the existing investment plans. Additional investment in new build or existing stock above these planned levels would necessitate rent increases above the average 1.1% per annum used in the current financial planning assumptions.

The revised revenue budget for 2022/23 is detailed in appendix B4.

4 Report Implications

4.1 Resource

There are no direct resource implications arising from this report.

4.2 Digital

There are no direct digital implications arising from this report.

4.3 Risk

The principal risks are around the issue of affordability, ensuring that the investment in new build and the existing stock can be made without having to impose unacceptable increases on weekly rents. This is mitigated by the adoption of a long term financial strategy and modelling which demonstrates that existing investment commitments are sustainable.

There is also the risk of capital spend being lower than projected due to delays on projects, particularly in the current climate with the onset of Brexit and Covid-19, this could result in lower debt charges causing the Housing Revenue Account Reserve balance to increase more than projected.

4.4 Ensuring Equalities

There are no equality issues arising directly from this report.

4.5 Additional Resource Implications

See Appendix A.

Appendices

Appendix A – Additional Resource Implications

Appendix B – Background Information

Appendix B1 – Capital Plan 2021/22

Appendix B2 – Revenue Account 2021/22

Appendix B3 – Capital Plan 2022/23-2026/27

Appendix B4 – Revenue Account 2022/23

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

The report does not directly relate to involving communities.

A.6 Impact on Performance and Outcomes

The report does not directly impact on Midlothian Council's performance and outcomes.

A.7 Adopting a Preventative Approach

The report does not directly relate to adopting a preventative approach.

A.8 Supporting Sustainable Development

The report does not directly relate to supporting sustainable development.

APPENDIX B

Background Papers/Resource Links

HRA Capital Plan and Revenue Budget enclosed

MIDLOTHIAN COUNCIL

Appendix B1

HOUSING REVENUE ACCOUNT CAPITAL PLAN 2021/22

Item 8.2

	Revised Budget 2021/22 £'000	Actuals to Date £'000	Projected Outturn £'000	Variation (Under)/Over £'000
FUNDING				
Grants				
- Incentivising New Build	3,520	3,520	3,520	0
- Buy Backs Funding	960	300	960	0
- Decarbonisation Fund	236	0	236	0
Council Tax on Second Homes	76	0	76	0
Insurance Receipts	72	7	72	0
Capital Financing from Current Revenue	25,000	0	25,000	0
Borrowing Requirement	15,611	19,497	15,695	84
TOTAL AVAILABLE FUNDING	45,475	23,324	45,559	84

APPROVED EXPENDITURE	**£'000**	**£'000**	**£'001**	**£'000**
New Build Houses Phase 2	10,973	7,330	10,973	0
New Build Houses Phase 3 & Phase 4	25,895	12,842	25,895	0
Buy Backs	3,600	562	3,600	0
Aids & Adaptations	308	272	392	84
Homelessness - Temporary Accommodation Provision	1,767	846	1,767	0
Insurance works	72	0	72	0
Scottish Housing Quality Standard				
-Upgrade Central Heating Systems	900	439	900	0
-SHQS Upgrades	1,960	1,033	1,960	0
TOTAL EXPENDITURE	45,475	23,324	45,559	84

MIDLOTHIAN COUNCIL

Appendix B2

HOUSING REVENUE ACCOUNT 2021/22

	Revised Budget	Projected Outturn	Variation (Under)/Over
Average No of Houses	**7,402**	**7,170**	**(232)**
	£000's	**£000's**	**£000's**
Repairs and Maintenance			
General Repairs	6,588	6,059	(529)
Decant/Compensation	51	61	10
Grounds Maintenance	786	757	(29)
	7,425	**6,877**	**(548)**
Administration and Management	5,248	5,232	(16)
Loan Charges	13,588	11,700	(1,888)
Other Expenses	2,459	2,669	210
TOTAL EXPENDITURE	**28,720**	**26,478**	**(2,242)**
Rents			
Houses	31,833	30,570	1,263
Garages	618	617	1
Others	514	485	29
TOTAL RENTS	**32,965**	**31,672**	**1,293**
NET EXPENDITURE/(INCOME)	**(4,245)**	**(5,194)**	**(949)**

Movement in HRA Reserve

Opening HRA Reserve	**(48,385)**
Enhancement during 2021/22 as above	(5,194)
Approved Capital Financing from Current Revenue	25,000
Closing HRA Reserve	**(28,579)**

MIDLOTHIAN COUNCIL

Appendix B3

HOUSING REVENUE ACCOUNT CAPITAL PLAN 2022/23-2026/27

	Proposed Budget 2022/23 £'000	Proposed Budget 2023/24 £'000	Proposed Budget 2024/25 £'000	Proposed Budget 2025/26 £'000	Proposed Budget 2026/27 £'000
FUNDING					
Grants					
- Incentivising New Build	6,602	7,536	0	0	0
- Buy Backs Funding	560	560	520	520	520
Council Tax on Second Homes	78	80	82	84	86
Borrowing Requirement	117,654	48,475	14,256	9,510	7,254
TOTAL AVAILABLE FUNDING	124,894	56,651	14,858	10,114	7,860

APPROVED EXPENDITURE	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
New Build Houses Phase 2	4,889	169	0	0	0
New Build Houses Phase 3 & Phase 4	84,081	41,081	5,338	0	0
Housing Led Town Centre Regeneration	20,000	0	0	0	0
Buy Backs	2,100	2,100	1,950	1,950	1,950
Aids & Adaptations	400	409	418	427	436
Bonnyrigg District Heating Scheme Meters	1,300	0	0	0	0
Environmental Improvements	4,000	4,000	2,000	2,000	2,000
Homelessness - Temporary Accommodation Provision	158	0	0	0	0
Scottish Housing Quality Standard					
-Upgrade Central Heating Systems	1,629	1,677	1,677	2,263	0
-SHQS Upgrades	6,337	7,215	3,475	3,474	3,474
TOTAL EXPENDITURE	124,894	56,651	14,858	10,114	7,860

MIDLOTHIAN COUNCIL

HOUSING REVENUE ACCOUNT 2022/23 **Appendix B4**

	2022/23 Proposed Budget
Average No of Houses	**7,451**
	£000's
Repairs and Maintenance	
General Repairs	6,356
Decant/Compensation	63
Grounds Maintenance	801
	7,220
Administration and Management	5,332
Loan Charges	13,790
Other Expenses	2,632
TOTAL EXPENDITURE	**28,974**
Income	
Houses Rents	31,950
Garages Rents	617
Other Income	486
TOTAL RENTS	**33,053**
NET EXPENDITURE/(INCOME)	**(4,080)**
BALANCE BROUGHT FORWARD	**(28,579)**
BALANCE CARRIED FORWARD	**(32,659)**

Council
Tuesday 15 February 2022
Item 8.3

General Services Capital Plan 2021/22 Quarter 3 Monitoring, and 2022/23 to 2025/26 Budgets

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Decision

1 Recommendations

It is recommended that Council:-

a) Note the inclusion of the projects listed in Section 3.1 in the General Services Capital Plan;
b) Approve the addition of the new projects to the General Services Capital Plan, as outlined in Section 3.2;
c) Approve the adjustment to the project expenditure and funding budgets for the projects as outlined in Section 3.3;
d) Note the forecast outturn for expenditure, funding and borrowing as outlined in Section 4;
e) Delegate authority to the Chief Officer Corporate Solutions to transfer capital receipts realised in 2021/22 and 2022/23 to the General Fund Reserve to fund the impact of Covid and transformational projects in 2022/23;
f) Approve the revised expenditure and funding levels in the General Services Capital Plan 2021/22 to 2025/26 (as outlined in Section 5 and shown in Appendices 1 and 2).

2 Purpose of Report

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

- An update of the General Services Capital Plan incorporating information on further additions to the Capital Plan for approval (Section 3);
- Information on the projected performance against budget for 2021/22 (Section 4);
- Forecast expenditure and income for the General Services Capital Plan for 2021/22 through to 2025/26 (Section 5)
- Update on the capital fund and expected Fiscal Flexibilities (Section 6).

Date 3 February 2022

Report Contact:
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3 Update of General Services Capital Plan

3.1 Projects presented for endorsement in the Plan

The plan now incorporates the provisions approved by Council on 14 December 2021 in respect of Beeslack Community High School Replacement and CCTV Networks.

3.2 Projects presented for endorsement in the Plan

The following projects are presented for endorsement to be fully adopted within the General Services Capital Plan:-

Capital Plan & Asset Management Board 25 January 2022

- **Place Based Investment Fund**: Various projects to achieve the objectives of the Scottish Government's Place Based Investment Programme, as follows:

  - Midlothian-wide wi-fi enabled mobile library (£0.200 million);
  - Pop Up Park in Newtongrange (£0.050 million);
  - Penicuik public realm Town Hall to St. Mungos (£0.257million);
  - Restoration of Hearse House, Penicuik (£0.079 million);
  - Community Arts Project, Danderhall (£0.015 million).

  £0.601 million capital expenditure budget approved by Capital Plan & Asset Management Board on 25 January 2022, fully funded by Scottish Government Capital Grant. Expenditure and funding fully phased in 2022/23.

- **A7 Urbanisation**: Provision of Footway and Cycleway works on the A7 from Hardengreen Roundabout to Gilmerton Road Roundabout. £0.156 million capital expenditure budget to take proposals to detailed design stage, fully funded by developer contributions and to be fully phased in 2022/23.

Learning Estate Strategy (LES)

The following provisions have been approved by the Children, Young People & Estates Capital Programme & Strategy Board on 20 January 2022, and by Capital Plan & Asset Management Board on 25 January 2022, and recommended for endorsement in the Plan:-

- **Development Works**: Capital expenditure budget of £2.250 million to ensure development, survey and initial design work for the LES projects. Phased £1.350 million in 2022/23 and £0.950 million in 2023/24.

  This will allow projects to progress to a Strategic Outline Business Case, and so incorporate robust estimates of the expected cost and timing of each project, along with determination of sources of funding such as developer contributions.

This will also examine opportunities to progress major projects as a programme of work rather than the design, procurement and construction of a series of individual projects. The extent of the Council's forward looking investment plans puts the Council in a unique position to take this approach, and officers will work with others, including Scottish Futures Trust, to take forward the programme and secure benefits from it.

It is proposed that following completion of Strategic Outline Business Cases presented to the Children, Young People & Estates Programme & Strategy Boards and Capital Plan & Asset Management Board, that officers then bring forward detailed expenditure and funding budgets to allow full inclusion of each project within the General Services Capital Plan. This will be done at the earliest opportunity to allow major projects to be advanced and to ensure acceleration of the overall capital plan.

- **Bonnyrigg/Lasswade catchments**: An assessment of primary school and ASN accommodation in the Bonnyrigg/Lasswade catchment has been undertaken to understand where immediate capacity pressures within the catchment will arise.

  The proposals below represent the proposed solution following the completion of this initial work:-

  - **Bonnyrigg Primary School**: Modular Unit: Provision of 2 class modular unit for Bonnyrigg Primary School to address projected future capacity pressures in the catchment. Capital expenditure budget of £0.562 million, fully phased in 2022/23 and fully funded by developer contributions;
  - **Hawthornden Primary School ASN**: Provision of dedicated 30 pupil ASN unit. Capital expenditure budget of £0.500 million, fully phased in 2022/23 and fully funded by prudential borrowing;
  - **Burnbrae Primary**: Conversion Works. £0.080 million capital expenditure budget, fully phased in 2022/23 and fully funded by prudential borrowing;

  Providing the additional accommodation in the Bonnyrigg catchment area as outlined above will alleviate any projected pressures on the primary school estate and will enable the development of the overall Learning Estate Strategy. The ongoing ASN review is actively considering the type and range of ASN provision required taking into account the growth in the complexity and nature of children's additional support needs.

<u>Other</u>

- **North Middleton Bridge**: Restoration & Upgrade of North Middleton Bridge. £0.080 million capital expenditure budget, fully funded by £0.080 million of Scottish Government Capital Grant.

3.3 Adjustments to Existing Project Budgets

The two projects below have been subject to a Strategic Outline Business Case assessment which has been approved by Children, Young People & Estates Capital Programme & Strategy Board on 20 January 2022, and Capital Plan & Asset Management Board on 25 January 2022.

Woodburn Primary School

Provision of a 9 classroom and activity hall extension & 160 place Early Years setting. Capital expenditure budget of £13.250 million, replacing the indicative capital expenditure budget of £11.374 million, with the increase in cost fully funded by prudential borrowing.

Increase in cost reflects improved energy requirements as part of the building design in line with the Council's Net Zero 2030 aspirations, and financial pressures currently being experienced by the construction industry.

Easthouses Primary School

Provision of a 2 stream primary school, with 18 ASN places and 120 Early Years spaces. Capital expenditure budget of £18.616 million, replacing the existing fully approved capital expenditure budget of £13.205 million, with the increase in cost funded through a mix of increased application of Early Years Grant (£0.414 million), increased application of developer contributions (£4.003 million) and an increase in prudential borrowing (£0.994 million).

Increase in cost reflects improved energy requirements as part of the building design in line with the Council's Net Zero 2030 aspirations, and latest estimates of costs. The project budget is in line with SFT Metrics.

4 2021/22 Projection against budget

4.1 2021/22 Budget

The 2021/22 capital plan budget of £40.345 million, has been rephased to £25.527 million (a decrease of £14.818 million) to account for updated expenditure profiles provided in the period, as shown in the table below:-

Table 2: Rephasing of project expenditure budgets

Project	Description of amendment to budget	Previous 2021/22 Budget £000's	Revised 2021/22 Budget £000's	2021/22 Budget Movement £000's
Digital Services Asset Management Plans	Rephasing of expenditure for Asset Management Plan due to impact of Covid and reprioritisation of resources	4,838	1,613	-3,225
Early Years Projects	Rephased to reflect revised project delivery timescales and impact of Covid	3,785	1,537	-2,248
Roads – Residential Streets	Full programme of works expected to be complete within original timeframe with bulk of work now expected to be carried out next financial year as planned	2,500	850	-1,650
Fleet Replacement Programme	Rephasing due longer lead times for delivery. Work ongoing to refresh fleet replacement and fleet profile plan	2,497	1,355	-1,142
Destination Hillend	Rephasing due to additional site surveys and design work, and ongoing work to finalise proposals for the access road and land acquisition	1,693	666	-1,027
Property Upgrades	Reprioritisation of plan to focus on Early Years reconfigurations	1,228	606	-622
Stobhill Depot Upgrade	Review of overall masterplan for Stobhill with parallel reprioritisation of upgrade works	568	0	-568
Intermediate Care Re-provisioning	Rephasing due to delay in grouting works due to planning conditions and inclusion of Passivhaus resulting in extended design period	1,077	538	-539
Roads – Upgrades	Rephasing due to shift in focus to deliver new Residential Streets Programme as planned	1,791	1,281	-510
Street Lighting Upgrades	Reprioritisation of plan to upgrade traffic signals that are at end of serviceable life	1,101	722	-379
Footways & Footpaths	Rephasing due to shift in focus to deliver new Residential Streets Programme as planned	560	236	-324
Roads – Temple Stabilisation	Rephased due to shift in focus to deliver new Residential Streets Programme as planned	309	0	-309
Asset Management Projects – Sport & Leisure	Various works – leisure centre flooring. Review of overall requirement to be undertaken in 2022/23	276	0	-276
Participatory Budgets	Revised phasing based on expenditure to date	360	160	-200
King's Park Primary School	Consultation process taking longer than original programme plan	426	226	-200

Project	Description of amendment to budget	Previous 2021/22 Budget £000's	Revised 2021/22 Budget £000's	2021/22 Budget Movement £000's
Easthouses Primary	Review of scope & design requirements to include Passivhaus & subsequent impact on overall programme	500	350	-150
Lasswade High School External Changing	Design works will be carried out early 2022/23 following recruitment of internal resource to progress	200	50	-150
ASN Provision – Complex Needs	Interdependencies with other projects	150	0	-150
Sacred Heart Primary Extension	External works will now be complete early 2022/23	337	237	-100
Others	Minor variances	1,674	1,106	-568
Total		**26,251**	**11,433**	**14,818**

In line with this, the expected level of funding available to finance the plan has also been rephased from £18.254 million to £16.258 million, a decrease of £1.996 million.

This reduces the projected in-year borrowing requirement from £22.091 million to £9.268 million. The projected performance against budget for 2021/22 is shown in table 3 below:-

Table 3: General Services Capital Plan Projected Performance against Budget 2021/22 – as at Quarter 3

Item	2021/22 Budget £000's	2021/22 Rephased Budget £000's	Actual To 03/12/21 £000's	2021/22 Projected Outturn £000's	2021/22 Variance £000's	2021/22 Carry Forward £000's
Expenditure	40,345	25,527	11,182	25,527	0	14,818
Funding	18,254	16,258	9,546	16,258	0	1,996
Borrowing Required	**22,091**	**9,268**	**1,636**	**9,268**	**0**	

4.2 Expenditure

Expenditure to 3 December 2021 is £11.182 million with a projected expenditure outturn of £25.527 million, in line with the rephased budget.

At this stage it is anticipated that budgets for the projects detailed in Appendix 2 will be fully spent in the current year.

The expenditure to Period 9 (£11.182 million) equates to 44% of the forecast outturn expenditure (£25.527 million). This means that the remaining £14.345 million, or 56% of expenditure, is projected to be incurred by the end of the financial year, with only 31% of the financial year remaining.

The expenditure forecasts are based on the latest assessment of project expenditure by service leads and project managers. The risk in these forecasts is that expenditure is materially less than forecast, with overly optimistic forecasts from service leads and project managers resulting in underspends within the current financial year and/or rephasing from 2021/22 back to 2022/23.

The actual outturn position will be assessed as part of the General Services Capital Plan – Outturn 2021/22 report to Council in June 2022, with prior reporting, challenge and assessment at Capital Plan & Asset Management Board.

4.3 Funding

The funding available to finance the Capital Plan in 2021/22 is expected to total £16.258 million, in line with the revised budget. Funding of £9.546 million has been received to 3 December 2021.

4.4 Borrowing

The budgeted level of borrowing for 2021/22 is £9.268 million. Based on the forecast outturn expenditure and funding levels as noted above, the revised estimate of the level of borrowing required for 2021/22 is in line with budget.

The impact on the Council's borrowing costs is reflected in the Financial Monitoring 2021/22 General Fund Revenue report elsewhere on today's agenda.

5 Capital Plan 2022/23 to 2025/26

5.1 Rephasing of Project Expenditure & Funding

In addition to the rephasing of project expenditure and funding from 2021/22 to/from 2022/23 as reported in Section 3, expenditure and income forecasts covering the remainder of the period of the plan have been rephased to reflect the most recent information available from project managers and service leads.

However, it has been observed for a number of years that "rephasing" occurs beyond even these forecasts due to a variety of issues including but not limited to supply chain pressures, issues arising during the consultation process, and internal capacity issues. This remains an issue as the UK starts to ease restrictions in place as a result of the Covid-19 pandemic, and supply chain issues associated with the UK leaving the European Union remain, which has already had a material impact on construction costs and project programmes.

To address this, strengthened financial monitoring & governance procedures have been implemented by CP&AMB, which will ensure that significant variations can be captured and reported to Programme Boards and CP&AMB so that any variance to these forecasts can be reported at the earliest opportunity.

Capital expenditure budgets have been established for 2025/26 to reflect the inclusion of block budgets for the Council's asset management strands. Expenditure budgets from later years for already approved Learning Estate Strategy projects which are expected to fall into 2025/26 have also been included.

A target has been set in the Capital Plan for the release of project contingencies, with the annual target equating to 2.5% of prior year's expenditure. Over the life of the plan, this equates to a total provision for the return of project contingencies of £6.206 million, based on a total of £237.768 million of capital expenditure. Project managers are therefore tasked with working within the approved budgets to deliver the release of contingencies in line with this.

5.3 Scottish Government General Capital Grant Funding

The planning assumption for the level of General Capital Grant funding from the Scottish Government over the period 2022/23 to 2025/26 is that the annual capital grant will be cash flat from expected 2022/23 levels, equating to £7.221 million per annum.

5.4 Borrowing

As a result of these revised expenditure and funding forecasts, the forecast level of borrowing over the period 2021/22 to 2025/26 is £117.138 million.

Table 4: General Services Capital Plan 2021/22 to 2025/26

Item	2021/22 Budget £000's	2022/23 Budget £000's	2023/24 Budget £000's	2024/25 Budget £000's	2025/26 Budget £000's	Total Budget £000's
Expenditure	25,527	68,240	65,270	58,933	19,799	**237,768**
Funding	16,358	32,796	31,036	27,392	13,148	**120,630**
Borrowing Required	**9,268**	**35,444**	**34,234**	**31,541**	**6,651**	**117,138**

6 Capital Fund

The Capital Fund at the start of the 2021/22 financial year was £24.157 million. £7.694 million of this is committed to fund the City Deal A701/702 Relief Road project, with a further £14.061 million committed to support capital investment including the utilisation of £2.000 million in the current 2021/22 financial year.

The Scottish Government's Cabinet Secretary for Finance and the Economy has in principle agreed to extended Fiscal Flexibilities to allow capital receipts in 2021/22 and 2022/23 to be used to fund the financial impact of Covid and to fund transformational projects in 2022/23. The extension of these flexibilities is dependent on confirmation from the UK Government that this will not result in an adjustment to Scotland's block grant.

Current projections are that capital receipts of £0.295 million in 2021/22 and £1.620 million in 2022/23 are expected to be realised. Accordingly and given the financial challenge for future years, it is recommended to have the option to make use of this flexibility to provide additional funding for the impact of Covid and to fund transformational projects.

As such, should the Fiscal Flexibility regarding capital receipts be formally approved, then dependent on actual receipts collected, it is proposed that the Chief Officer Corporate Solutions have delegated authority to transfer these to the General Fund Revenue account to use to mitigate the financial impact of Covid and fund transformational projects in 2022/23.

The forecast non-committed capital fund balance at 31 March 2022 is therefore now £1.869 million, as shown in the table below.

Item	**Amount £000's**
Balance at 01 April 2021	**24,157**
Committed to fund City Deal Project	-7,694
Committed to support Capital Investment	-14,061
Developer Contributions earmarked for specific purposes	-533
Expected capital receipts to be received 2021/22	295
Transfer to general fund reserve in 2021/22 to fund Covid costs and transformational projects	-295
Non-committed balance at 31 March 2022	**1,869**

7 Report Implications

7.1 Resource

The borrowing required to finance the planned investment in 2021/22 to 2025/26 is currently £117.138 million.

The borrowing requirement to fund the planned investment will be addressed as part of the development of the Medium Term Financial Strategy for the term of the next Council.

7.2 Digital

There are no Digital Services implications arising from this report.

7.3 Risk

The construction materials supply chain has already been subject to unprecedented disruption through a combination of the Coronavirus (COVID-19) Pandemic and the UK leaving the European Union. The Construction Leadership Council (CLC) continues to report shortages of construction materials and forecasts this disruption to continue for the foreseeable future. Ongoing engagement with suppliers confirms that materials shortages, longer lead times and steep price increases are highly likely to continue to impact the supply chain.

This potentially exacerbates the inherent risk in the Capital Plan that projects will cost more than estimated thus resulting in additional borrowing, or will be subject to significant delay.

Strengthened financial monitoring & governance procedures have been approved by CP&AMB, which will ensure that significant variations can be captured and reported to Programme Boards and CP&AMB so that remedial action can be taken to mitigate the risks.

In developing the strategy and taking cognisance of the longer term affordability gap it is clear that a number of potential projects which are currently included will only be able to be progressed if they can be delivered on a spend to save basis (i.e. where income or cost savings more than offset the cost of funding the investment) or where they can be delivered on a cost neutral basis or through alternative funding mechanisms.

The Capital Plan includes a provision for the return of contingencies of £6.206 million over the period 2021/22 to 2025/26, equating to 2.5% of all project expenditure. The risk is that projects throughout the plan are unable to deliver this which could be in part due to factors outwith the Council's control. Capital Plan & Asset Management Board will review the level of return of contingencies against the £6.206 million provision on an ongoing basis to ensure that projects can, where possible, deliver against this provision and that the provision continues to be appropriate.

7.4 Ensuring Equalities

There are no equalities issues arising directly from this report.

7.5 Additional Report Implications

See Appendix A.

Appendix A: Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable.

A.2 Key Drivers for Change

A.3 Key Delivery Streams

Themes 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 external consultation has taken place on this report.

A.6 Impact on Performance and Outcome

There are no issues arising directly from this report.

A.7 Adopting a Preventative Approach

Not applicable.

A.8 Supporting Sustainable Development

Not applicable.

Background Papers:
Appendix 1 – Summary General Services Capital Plan 2021/22 to 2025/26
Appendix 2 – Detailed General Services Capital Plan Monitoring 2021/22 Quarter 3
Appendix 3 – Detailed General Services Capital Plan Expenditure 2021/22 to 2025/26

Appendix 1: Summary General Services Capital Plan 2021/22 to 2025/26

GENERAL SERVICES CAPITAL PLAN 2021/22 to 2025/26	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'001	Total Budget £'000
EXPENDITURE						
Place	14,901	34,115	23,718	16,322	9,529	**98,586**
People & Partnerships	10,489	33,760	35,853	32,560	10,747	**123,408**
Council Transformation	776	1,019	7,421	11,725	1,039	**21,980**
Provision for return of contingencies	-639	-654	-1,722	-1,675	-1,515	**-6,206**
Total Approved Expenditure	**25,527**	**68,240**	**65,270**	**58,933**	**19,799**	**237,768**
FUNDING						
Government Grants - General Capital Grant	7,911	7,629	7,629	7,629	7,629	**38,427**
Government Grants - Early Years	1,633	5,993	5,131	1,473	37	**14,267**
Government Grants - Others	1,262	651	0	0	0	**1,913**
Schools for the Future Funding Rounds	0	0	0	0	0	**0**
City Deal Funding (Scottish Government)	385	779	7,421	2,315	0	**10,900**
City Deal Funding (Capital Fund)	0	0	0	7,694	0	**7,694**
Receipts from Sales	295	1,620	0	0	0	**1,915**
Receipts from Sales transferred to General Fund Reserve	-295	-1,620	0	0	0	**-1,915**
Transfer from Capital Fund to Capital Plan	2,000	3,000	2,533	0	0	**7,533**
Land Transfers from HRA Applied to Capital Plan	0	0	0	0	0	**0**
Developer Contributions - GSCP Committed	916	3,798	3,833	1,967	1,593	**12,107**
Developer Contributions - LES New	1,436	5,187	4,461	2,300	1,450	**14,834**
Developer Contributions - A701/702	356	0	0	1,143	0	**1,499**
Developer Contributions - Other Projects	177	462	28	2,871	2,439	**5,978**
Other Contributions	183	5,297	0	0	0	**5,480**
Total Available Funding	**16,258**	**32,796**	**31,036**	**27,392**	**13,148**	**120,630**
Approved Borrowing Required	**9,268**	**35,444**	**34,234**	**31,541**	**6,651**	**117,138**

Appendix 2

Detailed General Services Capital Plan Monitoring 2021/22 Quarter 3

GENERAL SERVICES CAPITAL PLAN Q3 MONITORING	2021/22 Budget Q3 £000's	2021/22 Actual to P9 £000's	2021/22 Forecast Outturn Q3 £000's	2021/22 Variance Q3 £000's	2021/22 Carry Forward Q3 £000's
PLACE DIRECTORATE					
Corporate Solutions					
Newbattle Centre of Excelllence	324	48	324	-	-
Business Applications	74	8	74	-	-
DS Corporate Solutions	217	-	217	-	434
Front Office - Hardware, Software & Services	231	17	231	-	462
Back Office - Hardware, Software & Services	394	10	394	-	788
Network, Software & Services	278	5	278	-	557
Schools - Hardware, Software & Services	492	48	492	-	984
Digital: Equipped for Learning	3,500	2,584	3,500	-	
DS Covid-Costs	-	458	-	-	-
Online Payments & Services	-	7	-	-	-
Civica Automation	47	-	47	-	-
Place					
Street Lighting Upgrades	722	163	722	-	379
Footway & Footpath Network Upgrades	236	86	236	-	324
Road Upgrades	1,281	558	1,281	-	1,014
Accelerated Roads Residential Streets	850	-	850	-	1,650
Roads Asset Management Plan - Temple Ground Stabilisation	-	-	-	-	309
North Middleton Bridge	80	-	80	-	-
Dalkeith Christmas Lights	25	-	25	-	-
Cycling, Walking & Safer Streets Projects	714	348	714	-	-
Ironmills Park Steps	-	-	-	-	7
New recycling facility - Penicuik	-	0	-	-	-
Vehicle & Plant Replacement Programme	1,355	930	1,355	-	1,142
LEZ Electric Vehicles & Charging Points	103	-	103	-	-
School Transport Retrofit Fund	22	-	22	-	-
Outdoor Play Equipment - Rosewell	-	-	-	-	46
Outdoor Play Equipment - Gorebridge	37	56	37	-	-
Roslin Wheeled Sports Facility	-	-	-	-	60
Mauricewood Road Bus Shelter	4	-	4	-	-
Riverside Park Paths & Woodland	-	-	-	-	89
Millerhill Park Circular Path & Bicycle Pump Track	-	-	-	-	18
Welfare Park, Newtongrange	98	-	98	-	-
Pump Track, North Middleton	-	-	-	-	76
Play Park Renewal	98	-	98	-	-
Nature Restoration Fund	31	-	31	-	50
Birkenside Grass Pitch Drainage	-	-	-	-	12
Stobhill Depot Upgrade	-	-	-	-	568
New Depot: EWiM Phase III	-	8	-	-	-
Property Upgrades	606	195	606	-	622
Midlothian & Fairfield House Shower Upgrades	22	13	22	-	-
Destination Hillend	666	319	666	-	1,027
32-38 Buccleuch Street Ground Floor Redevelopment	325	7	325	-	-
Cashless Catering	29	-	29	-	-
Non-Domestic Energy Efficiency Projects	210	210	210	-	1
Contaminated Land	70	30	70	-	116
Public Sector Housing Grants	280	90	280	-	(82)
Borders Rail - Economic Development Projects	-	-	-	-	63
Penicuik THI	196	28	196	-	-
Mayfield Town Centre Regeneration	4	-	4	-	-
CCTV Network	472	-	472	-	-
Town Centre Regeneration Fund 2019/20	495	495	495	-	-
Town Centre Regeneration Fund 2020/21	311	37	311	-	-
TOTAL PLACE	**14,901**	**6,759**	**14,901**	**-**	**10,717**

PEOPLE AND PARTNERSHIPS DIRECTORATE	2021/22 Budget Q3 £000's	2021/22 Actual to P9 £000's	2021/22 Forecast Outturn Q3 £000's	2021/22 Variance Q3 £000's	2021/22 Carry Forward Q3 £000's
Education - Early Years					
Mount Esk Nursery School Replacement @ Hawthornden	20	-	20	-	-
King's Park Primary School	50	54	50	-	-
Roslin Primary School	-	-	-	-	100
Capital grants to partner providers	450	219	450	-	464
Gorebridge Primary School	-	-	-	-	804
Catering kitchens	100	-	100	-	700
Hawthorn Children & Families Centre Alteration	50	64	50	-	-
Mauricewood Primary School	100	6	100	-	-
Vogrie Outdoor Early Learning Centre	167	85	167	-	-
Penicuik Outdoor Early Learning Centre	-	-	-	-	200
Other Outdoor Spaces	80	-	80	-	80
Settings' kitchens	33	-	33	-	81
Scots Corner	75	-	75	-	-
Newtongrange Primary School	50	-	50	-	-
Lasswade Primary School	45	-	45	-	-
Woodburn Primary School	45	-	45	-	-
Mount Esk Nursery School	20	7	20	-	-
Tynewater Primary School	20	-	20	-	-
Bilston Primary School	20	-	20	-	-
Moorfoot Primary School	20	-	20	-	-
Loanhead Primary School	5	-	5	-	-
Cuiken Primary School	3	-	3	-	-
St Andrew's Primary School	4	-	4	-	-
Education - Primary					
Paradykes Primary Replacement	169	21	169	-	-
New Hopefield Primary School	574	169	574	-	-
New Danderhall Primary hub	2,339	1,313	2,339	-	-
Cuiken Primary School Extension	-	91	-	-	-
Sacred Heart Primary School Extension	237	181	237	-	100
Lawfield Primary Extension	7	7	7	-	-
Easthouses Primary School	350	-	350	-	150
Tynewater Primary School	10	-	10	-	-
Burnbrae Primary School GP Space	2	-	2	-	-
Burnbrae Primary School External Works	73	-	73	-	-
Woodburn Primary 9 class & activity hall extension	566	36	566	-	-
Woodburn - Modular Unit Relocation	226	222	226	-	-
Education - Secondary					
Lasswade High - Toilets & Changing to 1,600 pupil capacity	50	-	50	-	150
A701 High School	430	192	430	-	-
Education - Learning Estate Strategy					
Kings Park PS upgrade to existing building	226	-	226	-	200
St Davids Primary - 4 class & EY extension	47	22	47	-	-
Mauricewood Refurbishment	30	-	30	-	20
Rosewell Primary School - extend to 2 stream	-	-	-	-	50
Newtongrange refurb & expansion to 2 stream	-	-	-	-	100
ASN Provision - Social Complex Needs	-	-	-	-	150
Burnbrae PS - Early Years Complex Needs	-	4	-	-	-
Mayfield School Campus replace & extend	152	-	152	-	-
Learning Estate Strategy: Development Budget					
Education - General					
Saltersgate Alterations Phase III - Playground Improvements	252	11	252	-	-
Saltersgate Phase IV - Internal Alterations	39	-	39	-	-
Modular Units - Session 2017/18	10	1	10	-	97
St. David's EY, Burnbrae Extension, Mayfield Campus Alterations	56	56	56	-	-
New Learning Estate Furniture & IT Equipment	17	-	17	-	-
CO2 Monitors for Schools	205	205	205	-	-
Free School Meal Provision	324	-	324	-	-
Children's Services					
Residential House for 5-12 year olds	767	542	767	-	
Communities & Partnerships					
Members Environmental Improvements	100	77	100	-	-
Participatory Budgets	160	-	160	-	200
Adult Social Care					
Assistive Technology	152	38	152	-	-
Homecare	55	-	55	-	-
Highbank Intermediate Care Reprovisioning	538	38	538	-	539
General Fund Share of Extra Care Housing	59	194	59	-	-
Sport & Leisure					
Property - Poltonhall Astro & Training Area Resurfacing	555	1	555	-	-
Property - Penicuik Astro Resurfacing	290	206	290	-	-
Dalkeith Thistle - Pavilion Upgrade	28	25	28	-	6
Loanhead Memorial Park Pitch	5	-	5	-	
Flotterstone Car Park Infrastructure & Charging	32	-	32	-	
Property - King's Park Tennis Courts Resurfacing	-	-	-	-	82
Property - Penicuik Centre Flooring, Cardio & Equipment	-	-	-	-	155
Property - Lasswade Centre Flooring	-	-	-	-	33
Property - Gorebridge Leisure Centre	-	-	-	-	7
TOTAL PEOPLE AND PARTNERSHIPS	**10,489**	**4,084**	**10,489**	**(0)**	**4,467**

COUNCIL TRANSFORMATION	2021/22 Budget Q3 £000's	2021/22 Actual to P9 £000's	2021/22 Forecast Outturn Q3 £000's	2021/22 Variance Q3 £000's	2021/22 Carry Forward Q3 £000's
Purchase to Pay	2	-	2	-	-
EWiM - Buccleuch House Ground Floor	33	-	33	-	-
A701 & A702 Relief Road City Deal Project	741	339	741	-	25
City Deal	-		-	-	-
TOTAL COUNCIL TRANSFORMATION	**776**	**339**	**776**	**-**	**25**
TOTAL	**26,166**	**11,182**	**26,166**	**(0)**	**15,509**
Provision for Return of Contingencies	(639)	-	(639)	-	-
TOTAL INCLUDING PROVISION	**25,527**	**11,182**	**25,527**	**(0)**	**15,509**

Appendix 3

Detailed General Services Capital Plan Expenditure 2021/22 to 2025/26

GENERAL SERVICES CAPITAL PLAN 2021/22 to 2025/26	2021/22 F/cast OT £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £000's	2025/26 Budget £000's	Later Years Budget £'000	Total Spend £'000
PLACE DIRECTORATE							
Corporate Solutions							
Newbattle Centre of Excelllence	324	-	-	-		-	**324**
Business Applications	74	8	333	333	333	-	**1,082**
DS Corporate Solutions	217	431	548	548	333	-	**2,076**
Front Office - Hardware, Software & Services	231	386	548	548	333	-	**2,046**
Back Office - Hardware, Software & Services	394	1,018	548	548	333	-	**2,841**
Network, Software & Services	278	497	548	548	333	-	**2,204**
Schools - Hardware, Software & Services	492	1,246	548	548	333	-	**3,166**
Digital: Equipped for Learning	3,500	2,000	2,000	2,000	1,000	-	**10,500**
Civica Automation	47	-	-	-		-	**47**
Place		-					
Street Lighting Upgrades	722	1,312	1,126	1,126	1,000	-	**5,286**
Footway & Footpath Network Upgrades	236	699	699	699	500	-	**2,833**
Road Upgrades	1,281	1,838	1,838	1,838	1,500	-	**8,295**
Accelerated Roads Residential Streets	850	4,150	-	-		-	**5,000**
Roads Asset Management Plan - Temple Ground Stabilisation	-	309	-	-		-	**309**
B6372 Arniston Embankment Stabilisation	-	593	-	-		-	**593**
North Middleton Bridge	80	-	-	-	-	-	**80**
A7 Urbanisation		156	-	-	-		**156**
Dalkeith Christmas Lights	25	-	-	-		-	**25**
Cycling, Walking & Safer Streets Projects	714	408	408	408	408	-	**2,346**
Ironmills Park Steps	-	7	-	-		-	**7**
New recycling facility - Penicuik	-	-	-	-		243	**243**
Vehicle & Plant Replacement Programme	1,355	2,020	1,795	1,681	1,500	2,938	**11,289**
Food Waste Rural Routes	-	132	-	-		-	**132**
LEZ Electric Vehicles & Charging Points & LAIP	103	-	-	-		-	**103**
School Transport Retrofit Fund	22	-	-	-		-	**22**
Outdoor Play Equipment - Rosewell	-	46	-	-		-	**46**
Outdoor Play Equipment - Gorebridge	37	-	-	-		-	**37**
Roslin Wheeled Sports Facility	-	60	-	-		-	**60**
Mauricewood Road Bus Shelter	4	-	-	-		-	**4**
Riverside Park Paths & Woodland	-	89	-	-		-	**89**
Millerhill Park Circular Path & Bicycle Pump Track	-	18	-	-		-	**18**
Welfare Park, Newtongrange	98	-	-	-		-	**98**
Pump Track, North Middleton	-	76	-	-		-	**76**
Play Park Renewal	98	-	-	-		-	**98**
Nature Restoration Fund	31	50	-	-		-	**81**
Birkenside Grass Pitch Drainage	-	12	-	-		-	**12**
Open Spaces - Midlothian Wide Play Areas	-	338	-	-		-	**338**
Stobhill Depot Upgrade	-	568	-	-		-	**568**
Property Upgrades	606	1,283	1,389	1,389	1,000	506	**6,173**
Midlothian & Fairfield House Shower Upgrades	22	-	-	-		-	**22**
Shawfair Town Centre Land Purchase	-	5,165	-	-		-	**5,165**
Destination Hillend	666	8,035	11,008	3,726	237	-	**23,672**
32-38 Buccleuch Street Ground Floor Redevelopment	325	19	-	-		-	**345**
Cashless Catering	29	-	-	-		-	**29**
Non-Domestic Energy Efficiency Projects	210	1	-	-		-	**211**
Contaminated Land	70	302	186	186	186	186	**1,116**
Public Sector Housing Grants	280	116	198	198	198	198	**1,188**
Borders Rail - Economic Development Projects	-	125	-	-		-	**125**
Gorebridge Connected	-	-	-	-		663	**663**
Penicuik THI	196	-	-	-		-	**196**
Mayfield Town Centre Regeneration	4	-	-	-		-	**4**
CCTV Network	472	-	-	-		-	**472**
Place Based Investment Fund	-	601	-	-		-	**601**
Town Centre Regeneration Fund 2019/20	495	-	-	-		-	**495**
Town Centre Regeneration Fund 2020/21	311	-	-	-		-	**311**
TOTAL PLACE	**14,901**	**34,115**	**23,718**	**16,322**	**9,529**	**4,734**	**103,319**

PEOPLE AND PARTNERSHIPS DIRECTORATE	2021/22 Budget £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £000's	2025/26 Budget £000's	Later Years Budget £'000	Total Spend £'000
Education - Early Years							
Mount Esk Nursery School Replacement @ Hawthornden	20	437	1,000	564		-	**2,021**
King's Park Primary School	50	129	-	-		-	**179**
Rosewell Primary School New Build	-	377	1,129	-		-	**1,506**
Roslin Primary School	-	369	326	-		-	**695**
Capital grants to partner providers	450	564	-	-		-	**1,014**
Gorebridge Primary School	-	804	-	-		-	**804**
Catering kitchens	100	700	-	-		-	**800**
Hawthorn Children & Families Centre Alteration	50	92	-	-		-	**142**
Mauricewood Primary School	100	200	107	-		-	**407**
Vogrie Outdoor Early Learning Centre	167	-	-	-		-	**167**
Penicuik Outdoor Early Learning Centre	-	100	-	-		-	**100**
Other Outdoor Spaces	80	200	-	-		-	**280**
Settings' kitchens	33	81	-	-		-	**113**
Scots Corner	75	-	-	-		-	**75**
Newtongrange Primary School	50	-	-	-		-	**50**
Lasswade Primary School	45	-	-	-		-	**45**
Woodburn Primary School	45	-	-	-		-	**45**
Mount Esk Nursery School	20	-	-	-		-	**20**
Tynewater Primary School	20	-	-	-		-	**20**
Bilston Primary School	20	-	-	-		-	**20**
Moorfoot Primary School	20	-	-	-		-	**20**
Loanhead Primary School	5	-	-	-		-	**5**
Cuiken Primary School	3	-	-	-		-	**3**
St Andrew's Primary School	4	-	-	-		-	**4**
Remaining Balance							**-**
Education - Primary		-					
Paradykes Primary Replacement	169	-	-	-		-	**169**
New Hopefield Primary School	574	-	-	-		-	**574**
New Danderhall Primary hub	2,339	100	-	-		-	**2,439**
Cuiken Primary School Extension	-	57	-	-		-	**57**
Sacred Heart Primary School Extension	237	400	-	-		-	**637**
Lawfield Primary Extension	7	-	-	-		-	**7**
Easthouses Primary School	350	3,170	9,510	4,872	256	-	**18,158**
Tynewater Primary School	10	-	-	-		-	**10**
Burnbrae Primary School GP Space	2	-	-	-		-	**2**
Burnbrae Primary School External Works	73	-	-	-		-	**73**
Woodburn Primary 9 class & activity hall extension	566	6,505	5,243	902	0	-	**13,216**
Woodburn - Modular Unit Relocation	226	-	-	-		-	**226**
Education - Secondary							
Lasswade High - Toilets & Changing to 1,600 pupil capacity	50	521	-	-		-	**571**
A701 High School	430	1,200	-	-		-	**1,630**
Education - Learning Estate Strategy		-					
Kings Park PS upgrade to existing building	226	1,698	3,761	4,761	1,492	-	**11,937**
St Davids Primary - 4 class & EY extension	47	600	1,000	3,000	659	-	**5,306**
Hopefield Farm Primary 2 (HS12)	-	1,347	4,041	6,735	1,347	-	**13,469**
Mauricewood Refurbishment	30	520	2,395	4,831	2,147	-	**9,923**
Rosewell Primary School - extend to 2 stream	-	550	1,362	3,823	1,912	-	**7,647**
Newtongrange refurb & expansion to 2 stream	-	645	1,807	129	129	-	**2,710**
Lasswade High - ASU	-	1,333	-	-		-	**1,333**
ASN Provision - Social Complex Needs	-	250	-	-		-	**250**
Strathesk Primary one class extension	-	214	92	-		-	**305**
Mayfield School Campus replace & extend	152	-	-	-		-	**152**
Learning Estate Strategy: Development Budget		1,350	900				**2,250**
Bonnyrigg Primary - Modular Unit		562					**562**
Hawthornden Primary - ASN Unit		500					**500**
Burnbrae Primary - Conversion of ASN to GP Space		80					**80**
Education - General							
Saltersgate Alterations Phase III - Playground Improvements	252	-	-	-		-	**252**
Saltersgate Phase IV - Internal Alterations	39	-	-	-		-	**39**
Modular Units - Session 2017/18	10	97	-	-		-	**107**
St. David's EY, Burnbrae Extension, Mayfield Campus Alterations	56	-	-	-		-	**56**
New Learning Estate Furniture & IT Equipment	17	17	17	17	17	-	**83**
CO2 Monitors for Schools	205	-	-	-		-	**205**
Free School Meal Provision	324	-	-	-		-	**324**
Children's Services		-					
Residential House for 5-12 year olds	767	-	-	-		-	**767**
Communities & Partnerships		-					
Members Environmental Improvements	100	50	48	48	48	-	**293**
Participatory Budgets	160	380	180	180	180	360	**1,440**
Adult Social Care		-					
Assistive Technology	152	150	150	150	150	347	**1,099**
Homecare	55	-	-	-		-	**55**
Highbank Intermediate Care Reprovisioning	538	6,656	2,312	131		-	**9,637**
General Fund share of Extra Care Housing	59	333	126	7		-	**525**
Sport & Leisure		-					
Property - Poltonhall Astro & Training Area Resurfacing	555	13	-	-		-	**567**
Property - Penicuik Astro Resurfacing	290	-	-	-		-	**290**
Dalkeith Thistle - Pavilion Upgrade	28	6	-	-		-	**34**
Loanhead Memorial Park Pitch	5	-	-	-		-	**5**
Flotterstone Car Park Infrastructure & Charging	32	-	-	-		-	**32**
Property - King's Park Tennis Courts Resurfacing	-	82	-	-		-	**82**
Property - Penicuik Centre Flooring, Cardio & Equipment	-	178	23	-		-	**200**
Property - Lasswade Centre Flooring	-	97	115	-		-	**212**
Property - Gorebridge Leisure Centre	-	48	67	-		-	**115**
Property - Loanhead Centre	-	2	144	-		-	**145**
Property - Shawfair Leisure/Library Provision	-	-	-	2,411	2,411	-	**4,822**
TOTAL PEOPLE AND PARTNERSHIPS	**10,489**	**33,760**	**35,853**	**32,560**	**10,747**	**707**	**124,115**

COUNCIL TRANSFORMATION	2021/22 F/cast OT £'000	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £000's	2025/26 Budget £000's	Later Years Budget £'000	Total Spend £'000
Purchase to Pay	2	-	-	-		-	**2**
EWiM - Buccleuch House Ground Floor	33	-	-	-		-	**33**
A701 & A702 Relief Road City Deal Project	741	779	7,421	11,725	1,039	-	**21,705**
City Deal	-	240	-	-		-	**240**
TOTAL COUNCIL TRANSFORMATION	**776**	**1,019**	**7,421**	**11,725**	**1,039**	**-**	**21,980**
GENERAL SERVICES CAPITAL PLAN TOTAL	**26,166**	**68,894**	**66,992**	**60,608**	**21,314**	**5,441**	**249,415**
TOTAL	**26,166**	**68,894**	**66,992**	**60,608**	**21,314**	**5,441**	**249,415**
Provision for Return of Contingencies	(639)	(654)	(1,722)	(1,675)	(1,515)	-	**(6,206)**
TOTAL INCLUDING PROVISION	**25,527**	**68,240**	**65,270**	**58,933**	**19,799**	**5,441**	**243,209**

Medium Term Financial Strategy – 2022/23 Budget

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Decision

1 Recommendations

Council is recommended to; -

a) Note that at its meetings of 24 and 31 January and 2 February 2022 the Business Transformation Steering Group gave consideration to recommendations to Council to enable Council to fulfil its statutory duty, as set out in Section 93 of the Local Government Finance Act 1992 (as amended), namely to set Council Tax and a Balanced Budget for 2022/23;

b) Consider the recommendations from the Business Transformation Steering Group meeting on 2 February 2022 that Council approves:-
   i. The deferment of debt repayments in 2021/22 & 2022/23 to secure £6.358 million to support the 2022/23 budget;
   ii. The utilisation of £2 million from uncommitted earmarked reserves to support the 2022/23 budget ;
   iii. An allocation of £56.438 million to the Midlothian Integration Joint Board for 2022/23 in respect of delegated services (subject to final confirmation of the quantum and distribution of funding for new burdens);

c) Note that after incorporating the measures in recommendation b) that the remaining budget gap for 2022/23 would be £1.369 million;

d) In the absence of recommendations from Business Transformation Steering Group to address the remaining budget gap Council is recommended to;-
   i. Approve the 2022/23 service budgets as set out in appendix D; and
   ii. As a consequence set a Band D Council Tax for 2022/23 of £1,442.60 as set out in appendix F;

e) Otherwise note the update in respect of Scottish Government grant, individual Council grant settlements and the net cost of services as set out in the report;

f) Delegate authority to the Chief Officer Corporate Solutions to determine if it is preferential to use the fiscal flexibility of a Loan Repayment Holiday in 2022/23 should the Statutory Instrument route be adopted by Scottish Government. In such circumstances the use of the Loans Fund review would be utilised in 2021/22 to create reserves to utilise to support the 2022/23 budget as part of the options noted in recommendation b);

g) In considering the recommendations above in respect of the 2022/23 budget also consider the overarching EQIA published alongside this report.

2 Purpose of Report/Executive Summary

The approval of the Medium Term Financial Strategy in June 2019 was an important step-change and one that provided greater certainty for local communities and for employees. It allowed the Council to shift from having to consider savings every year at February Council meetings to planning for the medium term and in turn securing continued financial sustainability.

As a result, the approval of the Medium Term Financial Strategy and, on the recommendation of the Business Transformation Steering Group, the subsequent approval of the 2020/21 & 2021/22 budgets ensured that the Council secured strategic budgets which invested in Midlothian to help it fulfil its potential to be a great place to grow.

The Medium Term Financial Strategy also provided a strong foundation on which the Council has been able to build its response to the financial impact of the COVID pandemic. It is against this backdrop that a corporate solution for 2022/23 was also developed to support the delivery of the last budget to be determined during the remaining term of this Council.

The Business Transformation Steering Group had previously considered and endorsed the key budget planning assumptions in respect of pay inflation, government grant and Council Tax and the corporate solution for 2022/23.

This report now facilitates the finalisation of decisions in respect of the 2022/23 revenue budget following the publication of the Scottish Government budget, Council grant settlements and the subsequent addition to the grant settlement of £120 million of non-recurring funding announced on 27 January 2022. The report enables Council to fulfil its statutory duty, as set out in Section 93 of the Local Government Finance Act 1992 (as amended), namely to set its Council Tax and a balanced budget for 2022/23, and as part of that agree a formal funding offer for the Midlothian Integration Joint Board.

At its meetings on 24 January and 31 January and 2 February 2022 the Business Transformation Steering Group gave consideration to recommendations to Council to enable Council to fulfil its statutory duty. After incorporating the recommendations made by the Group the remaining budget gap for 2022/23 would be £1.369 million. In the absence of any further recommendations from Business Transformation Steering Group, it is recommended that the remaining budget gap be addressed by setting a Band D Council Tax for 2022/23 of £1,442.60.

Members are advised that it would not be prudent to utilise further reserves to balance the 2022/23 budget. To do so would diminish the Council's financial sustainability at a time when the longer-term financial impact of Covid remains unclear, when inflationary pressures are increasing and against the backdrop of a challenging financial outlook for Local Government. In contrast the recommended increase in Council Tax would generate a recurring source of funding to support service provision in 2022/23 and beyond.

Date: 4 February 2022

Report Contact:
Gary Fairley, Chief Officer Corporate Solutions
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3 Background

Council last considered an update on the Medium Term Financial Strategy on 14 December 2021 where it agreed to note the update in respect of the 2022/23 budget and received a verbal update on the Scottish Government's budget announcement.

The Scottish Government's draft budget for 2022/23 was published on 9 December 2021 with the proposed Local Government Settlement then set out in Finance Circular 9/2021 published on 20 December 2021.

The Budget (Scotland) Bill has commenced its progress through the Scottish Parliament with Stage 1 (general principles) on 27 January, Stage 2 (amendments) on 2 February and Stage 3 (amendments, debate and final vote) scheduled for 10 February. The Local Government Finance (Scotland) Order 2022 is provisionally scheduled to be presented to Parliament on 24 February, after the Parliamentary recess.

On 27th January 2022 The Cabinet Secretary for Finance and Economy announced an addition of £120 million of non-recurring funding for the Local Government settlement. Details of which are set out in Appendix B, The Cabinet Secretary's letter to Councillor Macgregor the COSLA resources spokesperson.

Recognising the cooperation agreement between the SNP and Scottish Green Party it is not anticipated that there will be further changes to the Budget (Scotland) Bill or local government settlement as the Bill and Order pass through the parliamentary process.

The Local Government Finance Act 1992 sets a statutory deadline of 11 March by which Council is required to determine a budget and set Council Tax and for the year ahead. The practicalities of billing arrangements to ensure direct debits can be collected for April 2022 means that, for practical purposes, Council Tax decisions need to be made at today's meeting and certainly no later than the end of February 2022.

4 Corporate Solution for the 2022/23 Budget

As reported on 14 December 2021 the Business Transformation Steering Group considered and endorsed the key budget planning assumptions in respect of pay inflation, government grant and Council Tax and also the corporate solution for 2022/23.

The options presented to Business Transformation Steering Group reflected amendments recommended to that corporate solution because of the adverse impact of the Scottish Government grant settlement and the associated conditions attached to the settlement together with the completion of the detailed review of service budgets.

The principal amendments to the corporate solution arising from the grant settlement compared to planning assumptions endorsed by Business Transformation Steering Group are as follows:-

a) Incorporating Midlothian's share of £802 million of new monies for additional burdens and spending priorities. Midlothian share, which is estimated at £12.728 million is fully allocated to fund additional spending commitments.

b) Additional service budget pressures in respect of the increase in employers National Insurance Contributions and revisions to The Council Tax Reduction Regulations have not been specifically funded by Scottish Government. Nationally these additional costs are estimated at £70 million and £19 million respectively. The unfunded costs for service budgets are £1 million and £0.300 million respectively.

c) After accounting for these new burdens, service budget pressures and the additional non-recurring funding announced on 27 January 2022, there is a small cash increase of £20 million in the overall local government settlement. This contrasts the budget planning assumption endorsed by Business Transformation Steering Group of a cash flat settlement in respect of the core budget. This small increase equates to £0.3 million more grant support than had been previously anticipated for 2022/23 albeit £2 million of this is non-recurring funding, i.e. it is for 2022/23 only.

d) As the fasted growing Council the budget planning assumptions were predicated on an increase in the share of the overall grant settlement. However in determining the local government settlement for 2022/23 The Cabinet Secretary for Finance and Economy has determined that the floor adjustment mechanism in the settlement process should be set at -0.25% "to give maximum stability". Before the floor adjustment Midlothian would have secured a 2.21% increase across the Grant Aided Expenditure assessments. The floor reduces this to 0.02% and as a consequence for 2022/23 Midlothian will contribute £3.088 million to the floor. This results in an adverse variation compared to planning assumptions of £1.5 million.

e) Scottish Government have reduced the quantum for Early Learning and Childcare by £23.9 million (of which £8.9 million was allocated to fund deferral pilots across ten Councils). At the same time, a distribution basis has been adopted to replace the original multiyear funding arrangement. The impact of both of these is a year on year reduction of £1.584 million in funding for Early Learning and Childcare. The distribution element of the reduction being transitioned over three years and so the net reduction for 2022/23 is £0.882 million.

f) In announcing funding of £554 million for Health and Social Care Scottish Government set a requirement that Local Authority social care budgets for allocation to Integration Authorities must be at least £554 million greater than 2021/22 recurring budgets. As recommended by the Business Transformation Steering Group the proposed budget allocation to the Midlothian Integration Joint Board for 2022/23 has been amended in line with this requirement.

g) The settlement has no conditions in respect of setting Council Tax giving Councils full flexibility over setting Council Tax levels for 2022/23.

h) Alongside the budget, the Scottish Government published its Scottish Public Sector Pay Policy for 2022/23. Although this policy does not directly apply to the local government workforce, it never the less sets expectation in terms of pay negotiations. The initial assessment would indicate that to budget for pay awards in line with the Scottish Public Sector Pay Policy would equate to a 2.79% provision for Scottish Joint Council for Local Government Employees (SJC) and a 1.27% for Teachers and others on Scottish Negotiating Committee for Teachers (SNCT) conditions. The planning assumption endorsed by Business Transformation Steering Group provided for an average uplift in the paybill of 2.5% and this provision continues to be provided for in the 2022/23 service budgets.

Because of the grant variations, the budget gap of £9.222 million increased to £11.429 million which is partly reduced by the recommended revision to the budget allocation to the Midlothian Integrated Joint Board. This gives rise to a budget gap of £9.727 million so requiring a revision to the corporate solution to secure a balanced budget for 2022/23.

It has also been necessary to revise aspects of the corporate solution to reflect the technical accounting requirements related to those elements associated with the option to defer debt repayments. Accordingly, the options presented to Business Transformation Steering Group are summarised follows:-

	Pre Settlement £m	**Post Settlement £m**	**Notes**
Budget Gap	£9.222	£9.727	After reflecting the additional funding announced on 27 January 2022 and revision to IJB funding
Less options to address :-			
Deferment of debt repayments in 21/22& 22/23	£7.500	£6.358	reflects revised debt repayments otherwise due
Utilisation of earmarked reserves	£0.000	£2.000	To offset grant reductions
Council Tax increase of 3%/Council tax Freeze and funding equivalent to 3% Increase	£1.722	-	Previous planning assumption agreed by BTSG.
Remaining Budget Gap	**£0**	**£1.369**	

The measures above represent the use of £8.358 million of one of funding sources to balance the 2022/23 budget. As a consequence, and reflecting the recommendation to set a Band D Council Tax of £1442.60, the opening budget gap for 2023/24 is estimated at £12 million. That is the extent to which recurring expenditure for 2023/24 would exceed recurring income and before unfunded pay and other costs and unfunded demographic pressures are taken into account.

Accordingly, the decision on Council Tax for 2022/23, a recurring source of funding, has to be considered in the context of the outlook for 2023/24 and beyond where significant service reductions, focusing on statutory requirements as well as continued service transformation will be a necessity.

The adoption of the corporate solution continues to provide the opportunity for the Leadership Team to continue to respond to the impact of the pandemic and, through the work of the Business Transformation Board, focus on development of a financial strategy for the life of the next Council which it is anticipated will be presented early after the May 2022 elections.

5 Scottish Government Grant Settlement

The Scottish Government's budget presented to Parliament on 9 December 2021 by Ms Forbes, Cabinet Secretary for Finance and Economy was presented as delivering an overall increase for Local Government of £853.9 million, outlined in the Cabinet Secretary's letter to the COSLA President Councillor Evison included at appendix C.

COSLA's analysis highlights that of that increase, £802 million and £62.6 million relates to new Scottish Government revenue and capital commitments respectively. Furthermore, there are new pressures falling on Local Government, including additional national Insurances costs, of £89 million. Accordingly, the reality of the original settlement was that it represents a year on year cash reduction in core grant funding of £100 million in respect of revenue and a cash flat settlement in respect of capital.

Appendix C highlights the range of new commitments and conditions included in the overall settlement as summarised below with Midlothian Council's impact also noted. The resources for these new commitments are either "ring fenced" or are already committed.

Scottish Government revenue commitments:-

	National	Midlothian
	£m	**£000**
Children and Young People (inc. additional teachers, music tuition, curricular charges, school clothing grants, increase in Pupil Equity Fund)	180	3,298
Health and Social Care (social care pay, carers act, free personal care, winter package)	354	5,460
Social Care workforce (inc delivery of £10.50p/h for workers in commissioned services)	200	3,020
Scottish Child Bridging payments	68	950
Total additional revenue commitments	**802**	**12,728**

Other known revenue policy pressures:-

	National	Midlothian
	£m	**£000**
Council tax reduction regulation changes	19	300
Employers National Insurance Contribution increase (levy for Health & Social Care)	70	1,000
Total policy pressures	**89**	**1,300**

In response to the proposed settlement all 32 Council Leaders signed a letter to the First Minster seeking a meeting. And arising from that the COSLA Presidential Team and political Group Leaders met with the First Minster on 26 January 2022. Subsequently during the stage 1 consideration of the Budget (Scotland) Bill The Cabinet Secretary for Finance and Economy announced an additional £120m for Local Government albeit on a non-recurring basis. Details are set out in appendix B.

The revised revenue settlement at a national level is slightly more than previously projected for 2022/23, with a small increase in core funding of £20m but which still representing a year on year real terms reduction in core spending power given that the provision for pay inflation is 2.5%.

Turning to the Scottish Public Sector Pay Policy for the year ahead published on 9 December 2021 alongside the Government's budget. It indicates that there will be:-

- A guaranteed wage floor of £10.50 per hour;
- A cash underpin of £775 for public sector workers who earn £25,000 or less;

- A basic pay increase of up to £700 for those public sector workers earning between £25,000 to £40,000;
- A cash uplift of £500 for public sector workers earning above £40,000.

(all based on 35 hour working week)

Council is reminded that pay arrangements for the Local Government Workforce are determined on a bilateral basis nationally between Employers and Trade Unions through the Scottish Joint Council for Local Government Employees (SJC) and for Teachers on a tripartite basis between Employers, Trade Unions and Scottish Government through the Scottish Negotiating Committee for Teachers (SNCT).

The SJC have recently settled pay negotiations for 2021/22. The EIS balloted its members on the offer from the SNCT employers with the recently announced ballot result overwhelmingly rejecting the offer. The EIS expect to receive an enhanced offer from COSLA and the Scottish Government at the next negotiating meeting.

Whilst Local Government is not bound by the Scottish Public Sector Pay Policy it is relevant as it applies to comparator employers such as the NHS and it will clearly set minimum expectations for Local Government employees. The initial assessment would indicate that to budget for pay awards in line with the Scottish Public Sector Pay Policy would equate to a 2.79% provision for employees on SJC conditions and 1.27% for those on SNCT conditions. The planning assumption endorsed by Business Transformation Steering Group provided for an average uplift in all paybills of 2.5% and given the position outlined above the budget for 2022/23 continues to provide the average 2.5% uplift in service budgets for pay.

The SJC Trade Unions have now submitted pay claims for Local Government Workers and Chief Officials for 2022/23 with the SJC claim seeking, amongst other things, a flat rate increase of £3,000 per annum (based on a 35 hour working week). Initial calculations indicate this would represent circa an 11% increase in the SJC paybill and would equate to a national cost of over £600 million for which there is no provision in the core funding settlement.

6 Update on Fiscal Flexibilities

As Council is aware COSLA and Scottish Government reached agreement on three financial flexibilities in respect of a Loans Fund Repayment Holiday, Capital Receipts and Service Contract Concessions.

These flexibilities were designed to allow Council to utilise existing resources in alternative ways and principally to defer debt repayments until later years. Importantly they do not result in any additional funding support for local government.

In respect of the Loans Fund Repayment holiday the Cabinet Secretary has agreed to extend the period over which this is available to be utilised for one further year. Currently this is expected to be delivered through an administrative arrangement rather than a statutory instrument. However, at the request of Directors of Finance, Scottish Government officials are exploring whether it is best to revert to providing the flexibility though the means of a statutory instrument. At present, any council looking to use this flexibility in 2022/23 is required to take the loans fund holiday in 2021/22 and carry that saving to their General Fund reserve.

The options for the revised corporate solution recommended to Business Transformation Steering Group incorporates utilising the Loans Fund Holiday in 2021/22 to release other funds currently meeting Covid pressures which in turn result in reserves being available to support the 2022/23 budget. If the statutory instrument route is adopted by Scottish Government, then delegated authority is sought to allow the Chief Officer Corporate Solutions to determine if it is better to use this flexibility in 2022/23 with the use of the Loans Fund review utilised in 2021/22 to create the reserve to utilise to support the 2022/23 budget.

The Cabinet Secretary has also agreed to an extension of the flexibilities to allow capital receipts to be used to fund the financial impact of COVID and to fund transformational projects in 2022/23. The extension of these flexibilities is dependent on confirmation from the UK Government that this will not result in an adjustment to Scotland's block grant. Given the financial challenge for future years, it is recommended to now utilise this flexibility to provide additional funding for transformational projects. A recommendation to this effect is contained in the General Services Capital Plan report also on today's agenda.

In respect of the service concession flexibility, there remains uncertainly on what this flexibility entails. Directors of Finance continue to work on securing this flexibility for Councils, now especially important given the Settlement for 2022/23 and the prospects for later years. The Directors of Finance section have written to the Cabinet Secretary to ensure complete alignment on what is required noting that The Cabinet Secretary was of the view that she had indeed provided what had been asked for, but from a Local Government perspective what is currently on offer limits considerably the resources available for many Councils.

Within the letter, Directors of Finance make it clear that they are not looking for an option to simply maximise the value of the benefit but for better alignment between the consumption of the assets acquired via service concession and the charges to revenue accounts over the life of the asset. The professional opinion is that a change to accounting practice, to be in alignment with the 2016 regulations, would ensure greater consistency and at the same time allow prudent decisions to be taken over the profiling of debt charges using the asset life approach.

On our present understanding of the implementation of the change, there is no value to this flexibility for Midlothian. In her letter of 27 January 2022 the Cabinet Secretary indicates that she has written to CIPFA/LASAAC to seek their view on the request for further flexibility in the accounting treatment of service concessions. It is expected that if the position on financial flexibilities is clarified consideration can be given to how it can support future years budgets.

7 Projected Net Cost of Services

The net cost of services for 2022/23 has been reviewed and the updated projections set out in this report are based on the latest information available. The resultant service budgets, reflecting the recommendations of Business Transformation Steering Group and the recommendation in respect of Council Tax, are set out in appendix D with a year on year analysis of the movements in the budget set out in the analysis of change in appendix E. The key assumptions which underpin the budget are set out in appendix G.

8 Finalisation of the 2022/23 Budget and Setting Council Tax

The recommendations from Business Transformation Steering Group and the separate recommendations in respect of service budgets and Council Tax set out in this report enables Council to fulfil its statutory duty as set out in Section 93 of the Local Government Finance Act 1992 (as amended). Namely to set its Council Tax and a balanced budget for the following financial year commencing 1 April by 11 March.

Members should note that the legislation contains no specific requirement for a Council to set its budget at the same time as setting its Council Tax. This is because it is implicit in setting the Council Tax that the income it raises needs to be sufficient to fund the balance of expenditure not otherwise funded from government grant, fees, reserves etc.

It is therefore implicit in the legislation that Council Tax income funds the gap between other expected income and expenditure. Accordingly, in determining a budget, Council needs first to identify the proposed expenditure to determine the resulting gap that Council Tax needs to fund. If no other action is taken to redress any shortfall, then the Council Tax has to be set at a rate that will do so, otherwise the budget will not balance. Accordingly, Council Tax decisions should not normally be taken in advance of other budget decisions.

In respect of the medium and indeed longer-term position, members should note that the significant reliance on one off measures as part of the corporate solution. Accordingly, the budget gaps for later years together with the increased borrowing requirement over the longer term required to fund essential infrastructure will have to be addressed as part of the development of the Medium Term Financial Strategy for the term of the next Council. It is against this backdrop that the recommendation to increase Council Tax, and generate recurring income, is made.

The options set out to balance the 2022/23 budget rely heavily on a combination of one of sources of funding and the deferment of debt repayments. Accordingly, further reliance on one off funding from reserves to balance the 2022/23 budget would result in extremely limited headroom in reserves to deal with unforeseen events or to meet unbudgeted costs.

Members are advised that it would not be prudent to utilise further reserves to balance the 2022/23 budget. To do so would diminish the Council's financial sustainability at a time when the longer-term financial impact of Covid remains unclear, when inflationary pressures are increasing and against the backdrop of a challenging financial outlook for Local Government. In contrast the recommended increase in Council Tax, would generate a recurring source of funding to support service provision in 2022/23 and beyond.

Accordingly, if considering any amendment to the recommendation in respect of Council Tax members should give full consideration to the risks in respect of financial year 2022/23 as set out later in this report, the financial outlook beyond 2022/23 and the need to protect the financial sustainability of the Council. Members should also give careful consideration to those services that would need to be reduced or withdrawn in 2023/24 and beyond as a consequence of the recurring income forgone by a lesser increase in Council Tax in 2022/23.

Members should also continue to note that in terms of Section 112 of the Local Government Finance Act 1992 (as amended) it is an offence for members to participate in any vote in respect of setting Council Tax where the member has unpaid Council Tax. Accordingly, at today's Council meeting members would be required to disclose the fact if this section of the act applies to them and subsequently not vote on any question with respect to the matter.

8.1 Midlothian Integration Joint Board

The Local Government settlement provides an uplift of £554 million for Health and Social Care as follows:

Additional Funding	National £ million	Midlothian £000	Notes
Carers Act	20.4	306	Agreed uplift for Carers Act funding.
Uprating Free Personal & Nursing Care	15	225	10% increase to cover inflation
Real Living Wage baseline from 21/22	30.5	457	additional funding from 21-22 provided for the uplift to £9.50.
Full year impact of £10.02	144	2,276	full year impact of the uplift to £10.02 for adult social care commissioned services.
Care at home	124	1,891	recurring investment from the winter plan

Interim Care	20	305	non recurring 2022-23 funding from the winter plan
Social Care Investment	200	3,020	to cover the increase to £10.50 for adult social care commissioned services staff, with the remainder of funding un-ring-fenced.
Total Budget Uplift	**554**	**8,480**	**Note that Midlothian's share is provisional and subject to finalisation of distribution decisions**

Alongside publication of the Scottish Government's budget the Directorate for Health Finance and Governance advised that in respect of Health and Social Care Integration that the portfolio will transfer additional funding of £554 million to Local Government to support social care and integration. It stated that the funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2021/22 recurring budgets for social care services and therefore, Local Authority social care budgets for allocation to Integration Authorities must be at least £554 million greater than 2021/22 recurring budgets.

Applying that requirement to the budget delegated to the Midlothian Integration Joint Board will result in a budget to be delegated of £56.438 million, which represents a year on year increase of circa. 18% and in the context of the overall Local Government settlement Business Transformation Steering Group recommends that Council approve this as the formal offer to the Board (subject to final confirmation of the quantum and distribution of funding for new burdens).

The Chief Officer and Chief Financial Officer of the Midlothian Integrated Joint Board (MIJB) have been kept updated on the Council's budget position.

9 Governance and Timetable

Each element of the Medium Term Financial Strategy continues to have governance in place to support the timely delivery of the work streams. Any changes to the Medium Term Financial Strategy will first be reported to the Business Transformation Steering Group with recommendations then presented to Council. Responsibility for setting Council Tax and determining budgets remains with Council.

10 Report Implications (Resource, Digital and Risk)

10.1 Resource

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

10.2 Digital

The adoption of digital solutions is a central strand of the Medium Term Financial Strategy.

10.3 Risk

Within any financial projections, there are a number of inherent assumptions in arriving at figures and budget provisions and therefore risks that may be faced if costs change or new pressures emerge.

The following key risks and issues are highlighted in the context of this report:

- The risk associated with further one off measures to balance the budget in contrast to securing recurring funding though an increase in Council Tax income.
- The continued uncertainties arising from the COVID Pandemic;
- Uncertainly over the ongoing impact on the Council's financial position, especially in respect of service income, and the uncertainly over future additional grant support to help mitigate such impacts;
- The economic outlook and decision by Scottish Government on future years grant settlements and grant distribution;
- The delivery of services within approved budgets;
- The risk to service provision and service users associated with a continued decline in available resources to fund services;
- Outstanding pay award settlements and the implications of the National Living Wage for external service providers;
- Actual school rolls exceeding those provided for in the budget;
- Learning Estate Strategy for schools being underfunded to meet statutory functions;
- The funding position for Early Years expansion, which means that whilst delivering 1,140 hours the range of options open to parents and carers is less than was anticipated;
- The impact of the wider economic climate on range of factors including: inflation, interest rates, employment, tax and income levels and service demands;
- Cost pressures, particularly demographic demand, exceeding budget estimates;
- Pressures for uplifts in the National Care Home Contract that exceeds budget provisions;
- The impact of Universal Credit, and potential pension changes;
- The costs of implementation of national policies varying from the resources provided by Government;
- Potential liabilities arising from historic child abuse;
- Unplanned capital investment requirements and the associated cost; and
- Ability to continue to meet the expectations of our communities within a period of fiscal constraint.
- The impact of any further reduction in reserves would have in the Councils financial resilience and sustainability and in turn financial capacity to respond to unforeseen events or unbudgeted costs.

The Medium Term Financial Strategy aims to mitigate a number of these risks by setting out the key assumptions on which forward plans are based, and through the adoption of the corporate solution for 2022/23 secure a means to achieve financial balance without further service reductions.

The risk of not having in place a balanced Medium Term Financial Strategy and the adoption of the corporate solution is the potential elimination of available reserves, which in turn would severely limit the Council's ability to deal with further unforeseen or unplanned events and also the imposition of significant cuts at short notice with limited opportunity for consultation.

10.4 Ensuring Equalities

The Medium Term Financial Strategy was developed within the context of the Single Midlothian Plan, ensuring as far as possible that resources are directed towards the key priorities of reducing inequalities in learning, health and economic circumstance outcomes.

The Medium Term Financial Strategy continues as far as is possible to reflect Midlothian Council's commitment to the ethos of the Equality Act 2010 with careful consideration of the interests of the most vulnerable in our communities through the preparation of equality impact assessments.

In addition, these actions underline the Council's commitment in its Midlothian Equality Plan 2021 – 2025 to tackle inequality and promote inclusion within the limitations of the resources available. These actions also will allow the Council to plan and deliver services which meet the needs of our diverse communities and respond to the changes ahead.

An overarching EQIA has been published on the Committee Management section of the Council's website.

10.5 Additional Report Implications

See Appendix A

Appendices

APPENDIX A – Report Implications.
APPENDIX B – Cabinet Secretary's letter of 27 January 2022.
APPENDIX C – Cabinet Secretary's letter of 9 December 2021.
APPENDIX D – Service Budgets.
APPENDIX E – Year on year Analysis of change
APPENDIX F – Council Tax.
APPENDIX G – Key Assumptions.

Appendix A

A.1 Key Priorities within the Single Midlothian Plan

The Medium Term Financial Strategy facilitates decision on how Council allocates and uses its available resources and as such has fundamental implications for delivery of the key priorities in the Single Midlothian Plan. The corporate solution approach helps ensure that resources are available to continue to delivery 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

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

The development of the Medium Term Financial Strategy reflected a community consultation exercise carried out in 2019 which has also helped shape the drafting of the "Midlothian Promise" and the early development of the Council's Longer Term Financial Strategy.

In addition, there has been and will continue to be engagement with the recognised Trade Unions on the Council's financial position and the development of the Medium Term Financial Strategy.

A.6 Impact on Performance and Outcomes

The Financial Strategy facilitates decision on how Council allocates and uses its available resources and as such has fundamental implications for service performance and outcomes. The financial consequences of the pandemic have impacted on the availability and allocation of resources in pursuit of key outcomes as set out in the Single Midlothian Plan for both the immediate and longer term and therefore the ability of the Council to continue to deliver services in a financial sustainable manner.

A.7 Adopting a Preventative Approach

An effective Medium Term Financial Strategy will support the prioritisation of resources to support prevention.

A.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report and we will work to mitigate any sustainability issues which arise as a consequence of the Medium Term Financial Strategy.

Appendix B

Rùnaire a' Chaibineit airson Ionmhas agus na h-Eaconamaidh
Cabinet Secretary for Finance and Economy
Ceit Fhoirbheis BPA
Kate Forbes MSP

T: 0300 244 4000
E: scottish.ministers@gov.scot

Scottish Government
Riaghaltas na h-Alba
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Councillor Gail MacGregor
COSLA Resources Spokesperson

By email

27 January 2022

Dear Gail,

Thank you for the continued constructive engagement between us following the Budget announcement on 9 December. I welcomed the candid and thoughtful discussion we had at the Strategic Review Group meeting on the 20 January, and the First Minister found her discussion with Council Leaders to be similarly productive. As we move forward and look to improve our partnership working I hope that this frank and honest dialogue continues.

The First Minister yesterday assured you that I continued to seek what flexibility I could to improve the situation for local government and that we would look carefully at a request from the COSLA President to provide an additional £100 million to address a range of pressures being faced by local government.

The budgetary position for 2022-23 therefore remains very challenging, with all available funding having been fully allocated. However, in recent days I have received unexpected new information from the UK Government indicating the likelihood of further consequentials to be allocated to Scotland in 2021-22. Whilst this will require careful management of the Scotland Reserve, I believe there will be scope to carry forward funding into 2022-23, creating the opportunity to allocate additional resources to local government in the current Budget Bill, reflecting the pressures that Councils face.

I have therefore indicated to Parliament today my intention to amend the Budget Bill at Stage 2 to allocate a further £120 million of resource to Local Government in 2022-23. Councils may allocate this funding as they see fit.

I have noted that many councillors have expressed a view that the budgetary position could result in significant Council Tax rises. This additional funding is equivalent to the revenues that could be raised from an average four per cent rise across Scotland. So whilst councils

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have full flexibility in setting local council tax rates, I do not believe that there is a requirement for any inflation-busting increases next year.

This is a pragmatic solution, using the available flexibility that I have, to a challenging budgetary settlement for both Scottish and Local Government in 2022-23. This is of course one off funding, and the Resources Spending Review will need to address the long term sustainability of Local Government alongside the rest of the public sector. We will need to collectively consider commitments carefully alongside available funding, and options for savings and reform. I look forward to working with you in the coming months to progress this work.

Finally, I can confirm that following further useful dialogue between my officials and Directors of Finance, I have today written to the CIPFA LASAAC Board to seek their view on the request for further flexibility in the accounting treatment of service concessions. I have asked that they consider this issue as swiftly as possible.

Yours sincerely,

KATE FORBES

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Appendix C

Rùnaire a' Chaibineit airson Ionmhas
Ceit Fhoirbheis BPA
Cabinet Secretary for Finance
Kate Forbes MSP

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Councillor Alison Evison
COSLA President
Verity House
19 Haymarket Yards
Edinburgh
EH12 5BH

Copy to: The Leaders of all Scottish local authorities

09 December 2021

Dear Councillor Evison,

Today I formally set out the Scottish Government's proposed Budget for 2022-23 to the Scottish Parliament. Alongside the Budget I also published the Scottish Public Sector Pay Policy, the Medium Term Financial Strategy and the Resource Spending Review Framework. Further to the budget statement I write now to confirm the details of the local government finance settlement for 2022-23.

The intention is that the indicative allocations to individual local authorities for 2022-23 will be published in a Local Government Finance Circular on Monday 20 December. These can only be calculated following the publication next week of education statistics that are key to the distribution formula. That circular will begin the statutory consultation period on the settlement.

This Budget comes at a crucial juncture for Scotland. Over the past year, thanks to the hard work and sacrifices of everyone across Scotland, including the critical role Local Authorities have played in continuing to support our communities and administer financial support to our businesses, we have started to look beyond the immediate impact of the pandemic.

As the emergence of new variants demonstrates, we must remain vigilant and ensure the necessary resources are available for the continued protection of people and public services, but we must also look to the future. This Budget seeks to balance immediate pressures with long term imperatives – shifting the dial on inequalities, carbon emissions and economic prosperity. It also delivers on the Programme for Government and our Shared Policy Programme with the Scottish Green Party.

The total revenue funding to be provided through the settlement for 2022-23 will increase to £11,794.8 million, which includes distributable non-domestic rates income of £2,766 million.

The capital settlement has been set at £679.5 million. In parallel I am mindful of the challenges in delivering capital investment in the current economic climate so I will also explore the potential to offer flexibility to councils on carry forward of unspent capital from 2021-22 in light of the operation of the Fiscal Framework. This is subject to consideration about the impact on the Scottish Government reserve and I would hope to be in a position to provide confirmation in the early part of 2022 following the UK Government's Supplementary Estimates.

The total funding which the Scottish Government will provide to local government in 2021-22 through the settlement is therefore £12,474.3 million, an increase of £853.9 million and includes;

- £145 million for additional teachers and support staff in addition to the £88 million to maintain the pupil:teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme;
- funding to maintain 100 day commitments including the removal of curriculum and music tuition charges and expanded School Clothing Grant;
- £68.2 million for Child Bridging Payments;
- maintaining the £292.6 million provided in 2021-22 and providing a further £353.9 million transfer from Health for investment in health and social care and mental health services – including £174.5 million to support ongoing adult social care pay, £20.4 million to continue implementing improved rights and support for carers, £15 million to uplift free personal nursing care rates, £124 million of recurring care at home investment, and £20 million for interim care;
- In addition, a further £200 million will be transferred to support pay and sustainability of social care services bringing (with further detail set out below);
- £5.3 million for Assessors for Barclay implementation costs;
- an extra £62.5 million of Capital including:
    - £30 million for Free School Meals;
    - £20 million for the Local Bridge Maintenance Fund;
    - £11 million for Flood Prevention; and
    - £1.6 million for Coastal Protection

In terms of the broader Local Government Finance package, I have listened to the Live Well Locally campaign and intend to offer a number of flexibilities in direct response to that campaign.

I can confirm that councils will have full flexibility to set the Council Tax rate that is appropriate for their local authority area. In setting Council Tax rates, we expect councils to take full account of the local needs and impacts on household budgets of the decisions they make.

I acknowledge the argument in Live Well Locally that reserves are one off in nature and do not represent a substitute for recurring funding. However, I would also highlight that across Scotland some councils have accrued additional reserves during the pandemic,. Since we are likely to continue to face economic and fiscal challenges during 2022-23, I would encourage all councils to consider whether current levels of General Fund Reserve balances are an efficient use of public funds at this time.

In addition to flexibility on Council Tax rate setting, I recognise that local government have repeatedly called for removal of ring-fencing in the settlement and a greater focus on trust and partnership working. On that basis I commit to reviewing all ring-fenced funding as part of the forthcoming Resource Spending Review and would welcome your constructive engagement in that process so that removal of ring-fencing goes hand in hand with agreement about shared priorities and outcomes whilst ensuring maximum value for money.

More immediately, as recognised in correspondence from Councillors Parry and MacGregor on 06 December 2021, Scottish Government and COSLA officials are currently working together to develop a combined employability grant offer letter for 2022-23 which removes ring-fencing for the various employability programmes and instead focusses on the characteristics and needs of service users with the view of continuing to work together to develop options for a refreshed and collective approach to employability funding for 2023-24 onwards.

I and my ministerial colleagues fully recognise and value the work of Local Employability Partnerships and the important role that they play in shaping the crucial services that individuals need across their journey towards and into employment and that Scottish Government officials will continue to work in partnership with Local Authority employability leads and COSLA to achieve our shared ambitions.

Alongside reducing ring-fenced funding, the Scottish Government remains committed to working with COSLA to develop a rules based fiscal framework to support future funding settlements for local government. The development of a fiscal framework will have direct relevance to the Scottish Government's Resource Spending Review and I am keen to see some substantive work being taken forward during the first part of 2022.

It will be important for local government to bring forward proposals that can then be explored in partnership. The development of a fiscal framework is also an important part of the ongoing work on the Local Governance Review, which considers how powers, responsibilities and resources are shared across national and local spheres of government, and with communities.

The correspondence of 06 December 2021 referenced above also included a request from Leaders to provide flexibility to enable all 2021-22 employability funding to Local Government to be spent across 2021-22 and 2022-23. This request has unfortunately come too late to be factored into the Budget position I outlined today but I will prioritise the request in the coming days to try and agree a position which ensures that services to those requiring support is provided as swiftly as possible whilst reducing the administrative burden on those delivering the services.

I am also content to agree your request of 08 October 2021 for an extension of the flexibilities to allow capital receipts to be used to fund the financial impact of COVID and to fund transformational projects in 2022-23. I had previously stated that the COVID capital receipts flexibility was limited to two financial years, in the light of ongoing COVID impacts I will agree this extension for one further financial year. The extension of these flexibilities is dependent on confirmation from the UK Government that this will not result in an adjustment to Scotland's block grant. I am currently seeking that confirmation.

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Similarly, I also agree to extend the period for the loans fund principal repayment holiday for one further year. I will deliver this through an administrative arrangement rather than a further statutory instrument. Any council looking to use this flexibility in 2022-23 should take the loans fund holiday in 2021-22 and carry that saving to their General Fund reserve. To keep with the original intent of this flexibility the increase in General Fund reserves from taking this holiday are to be earmarked as being to fund the financial impact of COVID, and that earmarked reserve must be used in the course of 2022-23.

In terms of your request for a change in policy on capital accounting for service concessions, I remain committed to continuing to work with Directors of Finance and CIPFA/LASAAC on the capital accounting review.

Finally, in acknowledgment of the calls for greater fiscal empowerment across local government, the Transport (Scotland) Act 2019 introduced a discretionary power for local authorities to implement workplace parking licensing (WPL) schemes. I can confirm that regulations to implement those powers will be laid early next year to enable this to progress.

Prior to the COVID-19 pandemic, the Scottish Government was developing legislation to introduce the power for local authorities to create a visitor levy, or tourism tax but this was paused due to the pandemic. Given the overall impact of the pandemic on the tourism sector in Scotland it would be prudent to carefully review that work and undertake further stakeholder engagement before making a firm decision on the next steps, however I am committed to taking this forward in 2022.

Building on previous years' settlements, Local Authorities will again be expected to deliver further certain specific commitments and outcomes.

This year, we will again work with local government to help ensure Integration Authorities use total resources to focus on delivery of key areas for improvement, including: reducing delayed discharges; improving availability of, and access to, community-based health and social care services; and ensuring more people are supported to stay at home.

We will also wish to ensure that the social care workforce is supported and sustained during and following the challenges of the Covid pandemic. To support retention, and begin to embed improved pay and conditions for care workers, the additional £200 million funding transfer requires local government to deliver a £10.50 minimum pay settlement for adult social care workers in commissioned services, in line with the equivalent commitment being made in the public sector pay policy.

The funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2021-22 recurring budgets for adult social care services that are delegated. We will provide support and challenge by working with local government to agree a shared national and local approach to accountability for delivery, building upon existing shared mechanisms for routine reporting of expenditure, activity and outcomes across Scotland.

This Budget cannot deliver the resources all our partners will want. It addresses key priorities, targets resources on low income households, and paves the way for future investment in this Parliament. Where possible, it seeks to cushion all sectors against the headwinds that COVID-19, Brexit and UK Government's settlement have created and it treats Local Authorities fairly and consistently with other portfolios.

The 2022-23 Local Government Settlement of almost £12.5 billion offers a like with like increase of 7.5 per cent in real terms and continues to provide local government with a funding settlement that is both fair and affordable, under the most challenging of circumstances. I look forward to working with COSLA in the year ahead to deliver the broader commitments set out in this letter.

Yours sincerely,

KATE FORBES

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Appendix D

MIDLOTHIAN COUNCIL

REVENUE BUDGET 2022/23 SUMMARY

SERVICE FUNCTION	2022/23 £
Management and Members	1,965,977
People and Partnerships	
Childrens Services, Partnerships and Communities	20,138,997
Education	109,675,147
Midlothian Integration Joint Board	56,437,641
Non-delegated services - Leisure Services, Community Safety And Welfare Rights	1,995,738
Place	
Place	36,034,212
Corporate Solutions	21,831,954
Joint Boards	581,659
Non Distributable Costs	898,936
GENERAL FUND SERVICES NET EXPENDITURE	249,562,622
Loans Charges	6,411,000
Investment Income	(110,736)
Centrally Held Budget Provisions	479,991
Allocations to Housing Revenue Account, Capital Account	(5,379,516)
NET EXPENDITURE	**250,961,000**
Utilisation / (Enhancement) of Reserves	2,000,000
Financial Flexibilities - Debt Repayment deferrals	6,358,000
Council Tax Income	58,496,000
Scottish Government Grant	184,107,000
TOTAL FUNDING	**250,961,000**

Appendix E

Budget 2022/23 - Analysis of Change

	£m
2021/22 Approved Budget- Gap	**0.000**
Budget Changes	
Pay Inflation and salary progression	5.779
Contractual Inflation	1.645
Re-assessment of Medium Term Financial Strategy Delivery	1.275
Loan Charges	3.919
Removal of Lothian Buses Dividend	0.450
Council Tax - Property Growth	(1.350)
Scottish Government Grant	
Cash Uplift	(11.726)
For New Burdens – MIJB	8.607
For New Burdens – Council Services	1.080
Other Movements	0.048
22/23 Budget Gap	**9.727**
Utilisation of Reserves	(2,000)
Financial Flexibilities – Debt Repayments deferrals	(6.358)
Council Tax Increase	(1.369)
2022/23 Approved Budget - Gap	**(0.000)**

APPENDIX F

MIDLOTHIAN COUNCIL

Council Tax for Financial Year 2022/23

This statement gives details of the 2022/23 Council Tax payable in respect of a chargeable dwelling in each of the valuation bands specified in Section 74(2) of the Local Government Finance Act 1992 determined in accordance with Section 74(1) of the Act (as amended) **Based on Band D Council Tax of £1,442.60.**

Band	**Range of Values From £**	**To £**	**Band D Proportion**	**Council Tax £**
A	-	27,000	240/360	961.73
B	27,001	35,000	280/360	1,122.02
C	35,001	45,000	320/360	1,282.31
D	45,001	58,000	360/360	1,442.60
E	58,001	80,000	473/360	1,895.42
F	80,001	106,000	585/360	2,344.23
G	106,001	212,000	705/360	2,825.09
H	212,001	upward	882/360	3,534.37
Z	-	-	-	801.44

Key assumptions

The principle year on year budget changes include the following key assumptions and cost drivers:

- A provision for pay inflation together with the cost of incremental pay progression;
- Changes in the Council's contribution towards employee pensions costs advised by Lothian Pension Fund and SPPA;
- Provision for the Devolved School Management allocation to schools based on the current DSM scheme and indicative pupil numbers;
- Contractual inflation linked to existing contractual conditions, many of which mirror pay inflation assumptions;
- A provision for the future year's costs of maintain pay levels for procured care services at or above the living wage;
- The impact of current demand for services;
- The demographic impact on the future demand for services;
- Borrowing costs related to the approved capital investment decisions based on future interest rate forecasts provided by the Council's Treasury Advisers;
- Any new government policy requiring budgetary growth will be fully funded through increased Scottish Government grant; and
- Council Tax income continues to grow in line with previous trends and updated projections of future housing growth.

Midlothian

Treasury Management and Investment Strategy 2022/23 & Prudential Indicators

Report for Decision

1 Recommendations

Council is recommended to:-

a) Note that a draft of the Treasury Management and Investment Strategy 2022/23 & Prudential Indicators was considered by Members of the Audit Committee on Tuesday 25 January 2022, and that the recommended changes arising from that meeting are reflected in this report;

b) Note that there are no changes proposed to the Treasury Management and Investment Strategy (TMIS) for 2022/23 from the strategy currently in place, other than to update the Prudential Indicators (the three key prudential indicators relating to external borrowing as outlined in Section 4, and the remaining indicators as outlined in Appendix 2), to reflect the revised capital plans;

b) Note the retention of the current approach for the repayment of loans fund advances; and

c) Accordingly approve the Treasury Management and Investment Strategy for 2022/23.

2 Purpose of Report/Executive Summary

The purpose of this report to Council is to provide an update on the implementation of the Council's TMIS 2021/22, and to make recommendations to facilitate consideration of the 2022/23 Strategy, specifically the TMIS for 2022/23, the 2021 update to the Prudential and Treasury Management Codes, the Prudential and Treasury indicators contained therein, and the approach to the statutory repayment of loans fund advances.

In accordance with the Treasury Management Code of Practice, the annual Treasury Management & Investment Strategy (TMIS) & Prudential Indicators report is required to be adequately scrutinised before being recommended to the Council. For Midlothian, this role is undertaken by the Audit Committee, with this report being presented to Audit Committee on 25 January 2022. The recommended changes arising from Audit Committee consideration on 25 January 2022 are reflected in this report.

Date: 27 January 2022
Report Contact:
Gary Fairley, Chief Officer Corporate Solutions
gary.fairley@midlothian.gov.uk 0131 271 3110

3. Update on implementation of TMIS for 2021/22

3.1 Current Borrowing and Deposit Portfolio

3.1.1 Borrowing

The Council's borrowing position as set out in the 2021/22 Treasury Management Mid-Year Review Report was £274.795 million at 31 March 2021, and six months later was £273.701 million on 30 September 2021.

The principle source of borrowing is the UK Debt Management Office's Public Works Loans Board (PWLB) and fixed rate loans are taken at a time and tenure which takes cognisance of the PWLB rates (derived from the UK Gilts market) and the management of maturity risk in the long term across the Council's loan portfolio.

The Council does not borrow from PWLB to onward lend. The TMIS provides for capital investment to be underpinned by long-term borrowing, recognising the extremely low interest rate environment, the significant borrowing requirement arising from the Council's capital plans, and the long term benefits of de risking the delivery and affordability of these capital plans by locking into the certainty brought by PWLB fixed rate loans.

Market conditions in early December 2021 supported action to secure further long-term borrowing. The Council, on 9 December 2021, borrowed £50.000 million from PWLB (loan start date 16 December 2021) as shown in table 1 below. This action secured c. 17% of the Council's £296 million medium-term borrowing requirement (see Table 3) at historically low PWLB rates, reducing the weighted average interest rate of borrowing and with tenors which manage the refinancing risk in the long term.

Table 1: PWLB Borrowing Undertaken on 16 December 2021

Loan Value (£000's)	Loan Type	Start Date	Maturity Date	Tenor (years)	Interest Rate
10,000	Maturity	16 Dec 2021	16 Dec 2071	50	1.26%
10,000	Maturity	16 Dec 2021	16 Dec 2070	49	1.27%
10,000	Maturity	16 Dec 2021	16 Dec 2067	46	1.30%
10,000	Maturity	16 Dec 2021	16 Dec 2064	43	1.34%
10,000	Maturity	16 Dec 2021	16 Dec 2063	42	1.36%
50,000	**Weighted Average**			**46**	**1.31%**

The initial cost of carry from borrowing on 16 December 2021 was justified; had the Council deferred borrowing the £50.000 million until 2022/23, the overall additional net cash cost to the Council over the life of the loans is predicted to have been £13.284 million, based on the forecast PWLB borrowing rates for 2022/23 of between 1.80% and 1.90%.

Furthermore, as an example of the effectiveness of this strategy, were the Council to have borrowed £50.000 million on 7 January 2022, the equivalent PWLB borrowing rates for the same loan tenors as noted in

Table 1 above were between 1.82% and 1.91%. This would have resulted in a net additional cash cost to the Council over the life of the loans of £12.795 million.

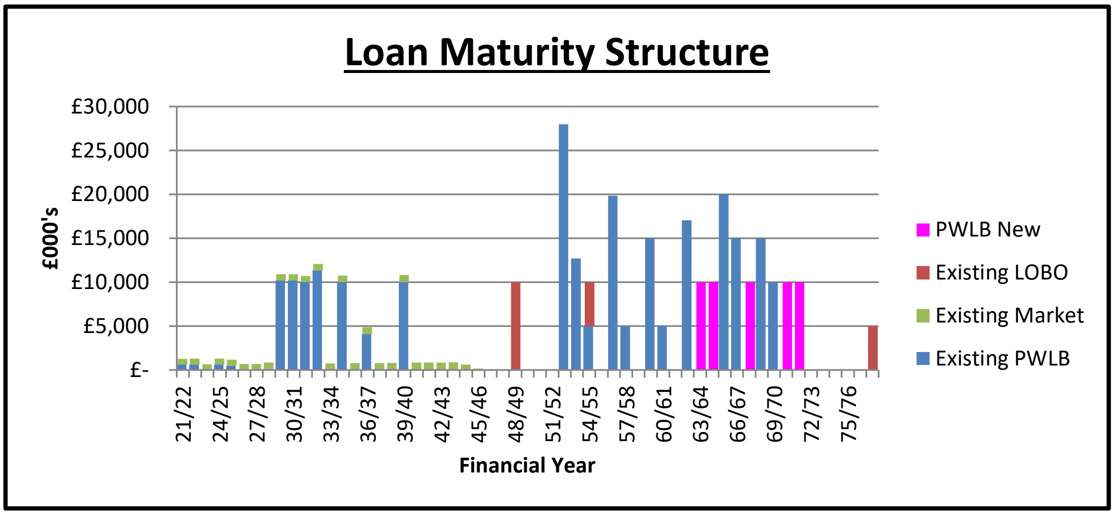
The provisions of the approved TMIS for 2021/22 have allowed Council officers to make time critical operational decisions – in line with the policy – that continue to secure best value in funding capital investment in the Council's asset base.

The Council's loan portfolio, as at 27 January 2022, is shown in table 2 below:-

Table 2: Current Loan Portfolio as at 27 January 2022

Loan Type	**Principal Outstanding £000's**	**Weighted Average Rate**
PWLB Annuity	523	8.91%
PWLB Maturity	284,776	2.70%
LOBO	20,000	4.51%
Market Loans	17,721	2.68%
Salix Loans	400	0.00%
Total Loans	**323,450**	**2.81%**

The repayment profile of this debt is shown in graphical and tabular form below:-



Financial Year	**2021/22 Remaining £000's**	**2022/23-2025/26 £000's**	**2026/27-2030/31 £000's**	**2031/32-2035/36 £000's**	**2036/37+ £000's**
Debt Maturing	180	5,035	23,923	37,203	257,109
% of total portfolio	0.06%	1.56%	7.40%	11.50%	79.49%

As can be noted in the graph and table above, proactive Treasury Management by the Council in the last decade has placed the Council in an extremely strong refinancing position for its existing external debt portfolio, with only £5.215 million, or just 1.61%, of the Council's total Loan Portfolio of £323.450 million requiring refinancing over the current and forthcoming four financial years. This extremely low short-term exposure to refinancing risk has put the Council in a strong position to plan its new borrowings in advance, take advantage of any dips in longer-term borrowing rates from PWLB (as demonstrated above) and other sources, and maintain a low weighted average coupon rate on external debt.

3.1.2 Deposits

The Council's position for funds on deposit fluctuates on a daily basis, with the 2021/22 Treasury Management Mid-Year Review Report setting out the position at 31 March 2021 of £131.273 million and six months later on 30 September 2021, at £137.590 million.

The position at 27 January 2022, as set out in Table 3 below, totals £161.536 million.

Table 3: Current Deposits as at 27 January 2022

Investment Type	Principal Outstanding £000's	Weighted Average Rate
Bank Call Accounts	29,914	0.16%
Money Market Funds	21,637	0.10%
Bank Notice Accounts	14,985	0.58%
Bank Fixed Term Deposits	35,000	0.41%
Other Local Authorities	60,000	1.62%
Total Investments	**161,536**	**0.79%**

The movement is two-fold:

- Following the Council's £50.000 million borrowing from PWLB on 16 December 2021 as outlined in Section 3.1.1 above, fixed term deposits with strong creditworthy bank counterparties totalling £35.000 million have been placed, prior to the expected application of the PWLB loan funds to finance capital expenditure in financial year 2022/23;
- Movement in the bank call accounts and money market funds which are used for day to day liquidity to meet cashflow requirements. The amount held in instant access accounts (£55.145 million as at 7 January 2022) is reflective of (a) the Scottish Government providing upfront funding to local authorities to support a range of grant schemes; (b) advanced Revenue Support Grant payments and Early Years Capital Grant payments in 2021/22; (c) the impact of Covid on the Council's cashflow due to rephasing of capital expenditure plans; (d) the receipt of developer contributions from sites across the County, towards new school, community, road and other infrastructure; and (d) the holding of the remaining £15.000 million PWLB funds prior to the expected application of these funds to capital expenditure in early 2022/23

A full list of deposits placed by the Council at 27 January 2022 is set out in the Treasury Management & Annual Investment Strategy Statement – 2022/23 Detailed in Appendix 4, Section 4.4.

3.2 Borrowing Requirement 2021/22 to 2025/26

The Council's capital plans contain projections of capital expenditure and income over the forthcoming financial years. Any expenditure not financed directly by income, requires funding through borrowing.

The projected borrowing requirement arising from the Council's Capital Plans, the MEL Shareholder Injection, and the maturing long-term loans that require to be refinanced, over the period 2021/22 to 2025/26 is shown in table 4:-

Table 4: Total Borrowing Requirement over the period 2021/22 to 2025/26

	2021/22 £000's	2022/23 £000's	2023/24 £000's	2024/25 £000's	2025/26 £000's	Total £000's
Capital Expenditure						
General Services	25,527	68,240	65,270	58,933	19,799	**237,768**
HRA	45,559	124,894	56,651	14,858	10,114	**252,076**
Total Capital Expenditure	**71,086**	**193,134**	**121,920**	**73,790**	**29,913**	**489,844**
Total Available Financing	-46,122	-40,036	-39,212	-27,994	-13,752	**-167,116**
Principal Debt Repayments	-5,670	-5,843	-10,214	-10,961	-10,967	**-43,655**
Capital Expenditure less available Financing	**19,293**	**147,255**	**72,495**	**34,836**	**5,194**	**279,073**
MEL Shareholder Injection	1,190	320	4,810	3,870	0	**10,190**
Maturing Long-term Loans	1,524	1,465	830	1,531	1,263	**6,613**
Total Borrowing Requirement	**22,007**	**149,040**	**78,135**	**40,237**	**6,457**	**295,876**
Borrowing secured	-50,000	0	0	0	0	**-50,000**
Total Remaining Borrowing Requirement	**-27,993**	**149,040**	**78,135**	**40,237**	**6,457**	**245,876**

3.3 Main Objectives of TMIS 2022/23

No material changes are proposed to the current TMIS which was scrutinised by Audit Committee in January 2021 and approved by Council in February 2021. The objectives of the current and proposed TMIS are:-

- To secure long-term borrowing to fund capital investment, through locking in to historically low long-term interest rates and de-risking the Council's Capital Financing Requirement (CFR);
- To ensure short-term liquidity to manage its day-to-day cashflow. This is achieved through the utilisation of instant access Money Market Fund and Bank Accounts, with the amount held in these reflecting the Council's level of working capital and fluctuating throughout the year due to a number of factors;
- To cash back the Council's usable reserves.

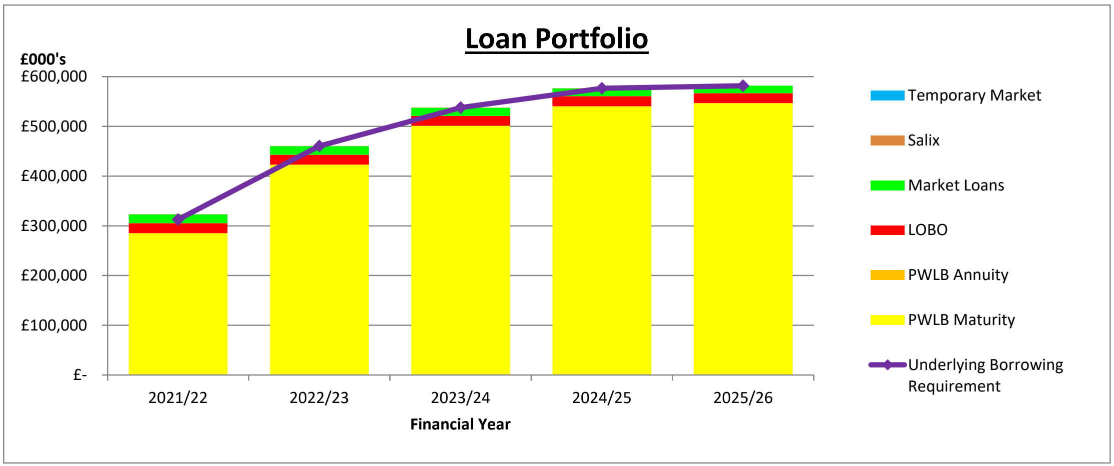
Similarly no changes are recommended to the Permitted Investments, though members should note that reflecting the decision of Council on 14 December 2021 there is a technical adjustment to the maximum level of investment in the Midlothian Energy Limited Joint Venture Energy Services Company (ESCO) to £10.190 million to reflect the decision of 14 December 2021.

More detail on the borrowing and investment strategy for 2022/23 is provided in Sections 3.4 and 3.5 below. Section 4 updates the Prudential Indicators based on the latest Capital Plans, and Section 5 notes no change to the Council's policy for the repayment of loans fund advances from that approved by Council in February 2021.

3.4 Borrowing Strategy for remainder of 2021/22 and 2022/23

Borrowing is undertaken to finance the Council's approved Capital plans and to do so in the most cost effective way. As can been noted from Table 4 above the Council has a significant borrowing requirement across the current and forthcoming four financial years (2021/22 to 2025/26).

The Council's projected loan portfolio over the period 2021/22 to 2025/26 is shown in graphical format below.



The Council has fully funded its current, and part of its 2022/23, borrowing requirement in a prudent way which balances (a) de-risking the longer term borrowing requirement at historically low longer term borrowing rates; against (b) the current year and forthcoming financial year budget projections.

Long-term PWLB borrowing rates for both HRA and non-HRA purposes have been at historically low levels and significantly below historical averages, with an expected gradual upward trend in these levels across the remainder of financial year 2021/22 and into 2022/23.

The Bank of England's Monetary Policy Committee raised base rate from 0.10% to 0.25% at their meeting on 16 December 2021. There are further rises forecast to base rate in Quarter 2 of 2022 (to 0.50%)

Quarter 1 of 2023 (to 0.75%), Quarter 1 of 2024 (to 1.00%) and finally, Quarter 1 of 2025, which would take the base rate to 1.25%.

With this in mind, utilisation of an element of temporary borrowing – which typically tracks close to base rate levels – within the Council's overall loan portfolio may continue to provide a cost-effective solution to the Council. The quantum of this will continue to be assessed against the backdrop of potential long term costs if the opportunity is missed to take PWLB or other market loans at historically low medium-long term rates, particularly given the projected gradual rise in PWLB rates.

The opportunity also continues to exist to consider further loans on a 'forward dealing' basis, and officers will continue to explore the viability of these loans as part of securing the long term borrowing required to meet the capital financing requirements.

Given the potential for uncertainty in the market to bring a dip in gilt yields and therefore PWLB rates, there may be further opportunities for further long term borrowing to be undertaken in financial year 2021/22 and into early 2022/23 to fund the Council's £246 million remaining medium term borrowing requirement to 2025/26 as outlined in Table 4 above. Any further borrowing drawn would be supported by a business case which will appraise the anticipated savings in borrowing costs (from expected increases in rates later in the year / in forthcoming years) against the carrying cost associated with borrowing in advance of need.

Officers will continue to ensure that any loans taken are drawn to match the existing maturity and projected capital expenditure profiles as closely as possible, that proposed interest rates continue to sit below forward interest rate projections, and that the overall borrowing remains within the Authorised Limit proposed below.

3.5 Investment Strategy for remainder of 2021/22 and 2022/23

No changes are proposed to the Investment Strategy from that approved by Council in the 2021/22 TMIS.

Council should note that in parallel to securing its external borrowing to finance the capital financing requirement, the strategy means that Council should continue to cash back the Council's useable reserves. In doing so, the Council are able to continue to minimise – or eliminate – the extent of under-borrowing and at the same time de-risk the Council's forward borrowing requirement; whilst also ensuring that all deposits are securely placed with high creditworthy counterparties, complying with the CIPFA Treasury Management Code principles of security, liquidity and then yield – in that order.

This ensures that all deposits are placed with high creditworthy counterparties, with a tenor reflective of the expected drawdown of reserve forecasts, and at a yield commensurate with this. The Council's current deposit portfolio is broadly reflective of the wider UK

Local Authority position, as noted in the table in Section 4.4 of Appendix 4.

The list of Permitted Investments in Appendix 1 also remains unchanged from that approved by Council in the 2021/22 TMIS, other than a technical change to reflect the value of the Council's investment in the Midlothian Energy Limited as referenced earlier.

4 CIPFA Codes & Prudential Indicators

4.1 CIPFA Codes

CIPFA, on 20 December 2021, released the new editions of the Treasury Management Code and Prudential Code.

The main areas that have been updated are summarised in the sections below.

It was proposed to bring forward the full suite of Treasury Management Practices (TMPs) (in full) alongside the TMIS to give AC today the opportunity to scrutinise and endorse these. Given the December release of the new Codes, and the significant work required to update local TMPs, the full suite of revised TMPs will be presented to AC at the earliest opportunity.

<u>Treasury Management Code</u>

1. **TMP1 Credit and Counterparty Risk Management** – requirement to refer to Environmental, Social and Governance (ESG) in credit and counterparty policies – with emphasis on counterparty governance (and link across to principles of security, liquidity and yield in that order) remaining paramount. This will be reflected in the revised TMPs;

2. **TMP6 Reporting Requirements & Management Information Arrangements** – requirement that any further investment indicators required by statutory legislation or regulation be reported by Local Authorities as and when they become implemented into statute/regulation. This will be reflected in the revised TMPs;

3. **TMP10 Training & Qualifications: Knowledge and Skills** – strengthened to include a requirement to retain a knowledge and skills register of elected members and employees that includes a training schedule outlining the aims and objectives of training and the expected level of expertise required.

   The Code stipulates that those charged with governance recognise their individual responsibility to ensure that they have the necessary skills to complete their role effectively

   As such, the Section 95 officer will therefore recommend as part of the TMPs, and implement, the necessary arrangements including the specification of the expertise, knowledge and skills required by Elected Members and members of staff.

Council officers are in the process of developing a training schedule for both elected members and employees and this will be reflected in the revised TMPs.

4. **Clear statement in line with Prudential Code** that “Local authorities must not borrow to invest for the primary purpose of financial return.” Midlothian Council does not and has not borrowed to invest primarily for financial return.

5. **Revised definition of Investments** that requires Local Authorities to clearly identify and report the following categories of Investment:-

    - Treasury Management Investments;
    - Service Investments; and
    - Commercial Investments (including Commercial Property).

    with the former covered within updated Treasury Management Practices (TMPs) and the latter two in new Investment Management Practices (IMPs).

    These new IMPs are required to follow a similar format to the TMPs used for Treasury Management Investments, clearly setting out the investment objectives, criteria, risk management, performance measurement & management, reporting arrangements and ongoing training requirements associated with Service & Commercial Investments.

6. **TMP8 Cash & Cashflow Management**: A new Treasury Management Indicator – the “Liability Benchmark” is required which identifies future borrowing needs against the maturity profile of the Council’s existing loan portfolio.

    At the time of writing, further clarity is needed in the CIPFA Treasury Management: Guidance Note regarding the calculation of this.

7. **TMP6 Reporting Requirements** – retention of the existing Treasury Management reporting frequency, which is a minimum of: (a) an annual Strategy report in advance of the forthcoming financial year; (b) a Mid-Year Review report; and (c) An Annual Outturn report after the year-end.

<u>Prudential Code</u>

1. **Prudence**: The Code expands on the detail both of what it considers to be legitimate examples prudence in borrowing and investment, and which acts are not considered to be prudent activity for a Local Authority.

Legitimate examples of prudent borrowing include financing of capital expenditure primarily related to the delivery of a local authority's functions, temporary management of cashflow within the context of a balanced budget, securing affordability by removing exposure to future interest rate rises, or refinancing current borrowing, including replacing internal borrowing, to manage risk or reflect changing cash flow circumstances.

A key concern for CIPFA continues to be regarding leverage and borrowing to invest particularly for Commercial and Service Investment – with a clear statement in the Prudential Code that it is "*not prudent to make any investment or spending decision that will increase the capital financing requirement, and so lead to new borrowing, unless directly and primarily related to the functions of the authority and where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose*".

2. **Annual Strategy Review regarding divesting Commercial Investments (including Commercial Property)** – the Prudential Code makes it clear that a Local Authority's existing commercial investments will not be required to be sold or immediately divested under the provisions of the new Prudential Code.

   However, where a Local Authority has an expected need to borrow, the Local Authority should review options for exiting their financial investments for commercial purposes in their annual treasury management or investment strategies.

   The options should include using the sale proceeds to repay debt or reduce new borrowing requirements. They should not take new borrowing if financial investments for commercial purposes can reasonably be realised instead, based on a financial appraisal which takes account of financial implications and risk reduction benefits;.

3. **Objectives of the Prudential Code** – updated to cover the following new objectives:

   - Capital plans and investment plans are affordable and proportionate with this based on the judgement of the S95 officer, based on the size and aims of the organisation;
   - All external borrowing/other long-term liabilities are within prudent and sustainable levels. This is already encompassed in the TMIS; and
   - Risks associated with investments for commercial purposes are proportionate to a Local Authority's overall financial capacity i.e. that plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services and/or the level of resources

available to an organisation. Not applicable for Midlothian Council.

4. **Revised definition of Investments** as covered in Treasury Management Code Item 5 above [shared definition between TM and Prudential Codes];

5. **ESG in Capital Strategy** – requirements of Capital Strategy in Prudential Code broadened, to make clear the Capital Strategy must address environmental sustainability in a manner which is consistent with Councils' own corporate policies on the issue.

   This will encompass the work already being undertaken to meet the Council's commitment to achieving Net Zero by 2030, including the requirements for Passivhaus technology, greater emphasis on active travel and connecting with public transport proposals, and the greater importance on the need for high quality green and blue infrastructure to address issues such as biodiversity and surface water management;

6. **Capital Financing Requirement** – Gross Debt and the Capital Financing Requirement remain a key indicator (see Appendix 2, Section 3.1). Furthermore, the calculation of the Capital Financing Requirement (CFR) must include Heritage Assets. Midlothian Council already include Heritage Assets within the calculation of the CFR;

7. **Reporting & Monitoring of Prudential Indicators**: A requirement for the reporting and monitoring of Prudential Indicators to be provided to Council on at least a quarterly basis;

8. **Inclusion of new Prudential Indicator for Affordability**: Net Income from Service & Commercial Investments as a proportion of the Net Revenue Stream – see Appendix 2, Section 1.3;

9. **Clear statement as also noted in the TM Code** that "Local Authorities must not borrow to invest primarily for financial return." Midlothian Council does not and has not borrowed to invest primarily for financial return;

10. **Long-Term Treasury Investments**: CIPFA leaves any decision to maintain long term Treasury Investment to each Authority/S95 officer to justify (assumption being that these are not borrowed for) and any longer term Treasury Investment to be linked to Business Model (e.g. a link to cash flow management or treasury risk management).

CIPFA expect Local Authorities to integrate the requirements of the new Treasury Management and Prudential Codes, and the Treasury Management Guidance Note, into their decision-making, monitoring and management.

CIPFA make it clear that the new 2021 Prudential Code applies with immediate effect but that Local Authorities can defer the reporting requirement until the 2023/24 financial year.

CIPFA also make it clear that the new 2021 Treasury Management Code is a “soft launch” with formal adoption and reporting to be required from the 2023/24 financial year. The Treasury Management: Guidance Note which accompanies the Treasury Management Code is expected to be published by CIPFA at the end of January 2022, and is expected to include further detail on the TMPs, IMPs, and calculation and presentation of the new Treasury Management Indicator for the Liability Benchmark.

It is therefore proposed that the implementation of the Codes for Midlothian Council is as follows:-

- Following publication of CIPFA’s Treasury Management Guidance Note for Local Authorities, Council officers will update the existing Treasury Management Practices (TMPs), along with development of the new Investment Management Practices (IMPs), to reflect the full requirements of the new Treasury Management [and Prudential] Codes, and bring these back to Audit Committee for scrutiny at the earliest available opportunity.

- The reporting requirements of the Prudential Code requires that the Section 95 officer establish procedures to monitor and report Prudential Indicators on a quarterly basis.

  These are already currently reported to Council as part of the Treasury Strategy, Treasury Mid-Year Review, and Annual Treasury Outturn reports.

  It is proposed that from the 2022/23 financial year, these are reported to Council as part of the current quarterly financial reporting arrangements.

- Officers will incorporate the new Environmental & Sustainability provisions of the Prudential Code in the next update of the Capital Strategy.

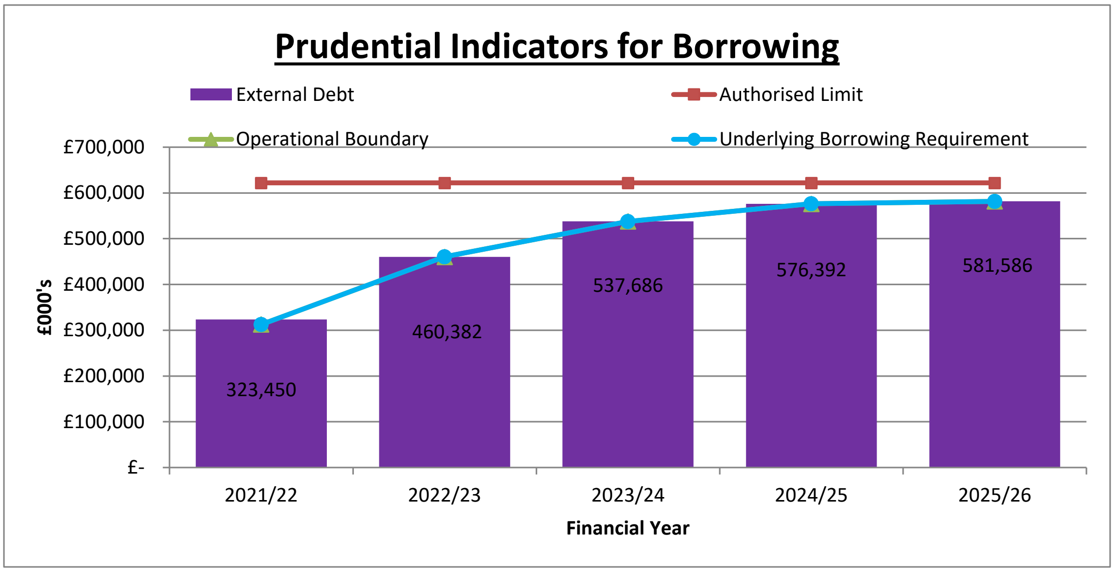
4.2 Prudential Indicators – Midlothian Council

The Prudential Code for Capital Finance in Local Authorities requires that Councils can demonstrate that their Capital Plans are affordable, prudent and sustainable, taking into account the financial provisions made in current and future revenue budgets; and that Treasury Management decisions are taken in accordance with good practice.

The Prudential Indicators that Councils need to consider relate to both actual, historic outcomes, and future estimated outcomes (covering the same period as the Council’s Capital Plans), as follows:-

- Actual outcomes for 2020/21;
- Revised estimates of the 2021/22 indicators; and
- Estimates of indicators for 2022/23 to 2025/26.

The Prudential Indicators required by the Code are listed individually in Appendix 2. The key indicators relating to external borrowing are shown in graphical format below.



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

The **Authorised Limit for Borrowing** represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It is the expected maximum borrowing need with some headroom for unexpected movements.

The Authorised Limit for Borrowing has been calculated by taking the maximum value of the CFR over this year and the next 4 financial years (2022/23 to 2025/26), with the total forecast level of unrealised capital receipts and developer contributions added back to this figure (given the inherent uncertainty regarding the timing and value of these receipts/contributions). This is shown in table 5 below.

Table 5: Authorised Limit for Borrowing: Calculation

Authorised Limit	**Amount £000's**
CFR – General Services (31 March 2026)	237,587
CFR – HRA (31 March 2026)	343,999
Forecast Capital Receipts & Developer Contributions 21/22 to 25/26	40,369
Proposed Authorised Limit	**621,955**

Council is therefore asked to approve an authorised limit for borrowing of £621.955 million, if market conditions support this action. This would have the effect of securing lower costs for future years but care would be taken to ensure that the cost of carry from borrowing early is minimised and that the maturity structure of all debt is sufficiently robust to ensure that the CFR at 31 March 2026 remains achievable.

The authorised limit therefore reflects a level of borrowing which, while not desired, could be afforded but is not sustainable.

5 Statutory repayment of loans fund advances

Under the Local Government Finance Circular 7/2016, Council is now required to set out its policy for the statutory repayment of loans fund advances prior to the start of each financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

The TMIS retains the methodology adopted in 2021/22 – that is as follows:-

5.1 New Assets

In accordance with Finance Circular 7/2016, for all advances made in relation to the provision of a new asset, the policy will be to defer the commencement of the first principal repayment of the loans fund advance until the financial year following the one in which the asset is first available for use.

5.2 Prudent Repayment of Loans Fund Advances

Finance Circular 7/2016 provides a variety of options to Councils for the profiling of the repayment of each loans fund advance, so long as the principle of prudence is maintained. There are 4 options available: (a) Asset Life method; (b) Statutory method; (c) Depreciation method; and (d) Funding/income profile method.

In line with the policy adopted in 2021/22, the Asset Life method shall be used for those assets in Table 6.

Table 6: Asset Classes to adopt the "Asset Life" method

Infrastructure	Current Loans Fund Advance Period*	Proposed Loans Fund Advance Period
New Primary Schools/Extensions	50	60
New Leisure Centres	39	60
New Offices	25	60
Road Upgrades	29	50
Street Lighting Columns	26	50
Structures/Bridges	26	50
Footway/Cyclepaths	30	50
Town Centre Environmental Improvements	20	50
New Care Homes	33	45
Children's Play Equipment	9	20

** Average loans fund advance length*

The annual repayments under the "Asset Life" method for those asset classes as noted above will be calculated using the asset lives and will use the annuity method, to ensure consistency of approach with the

Statutory method for all other asset classes (see below). The annuity interest rate that will be used to calculate loans fund principal repayments under the "Asset Life" method will be the in-year loans fund rate, which for 2021/22 is currently estimated to be 2.86%.

For all other asset classes, the policy will be to maintain the practice of previous years and apply what is termed "the Statutory Method" – following the principles of Schedule 3 of the Local Government (Scotland) Act 1975 – with all loans fund advances being repaid by the annuity method. The annuity rate that is proposed to be applied to the loans fund repayments varies will be the in-year loans fund rate, reflecting the Council's current loan and investment portfolio. The loans fund rate for 2021/22 is forecast to be 2.86%

Whilst neither the Depreciation nor the Funding/income profile methods are currently proposed, Council officers will continue to monitor whether it is appropriate to use this for future capital projects.

6 Performance Indicators 2020/21 – comparison with other Scottish Local Authorities

The Treasury Management Forum collates performance indicators for all Scottish Local Authorities. The indicators relating to financial year 2020/21 have been published and once again demonstrate the continuing effectiveness of the Council's Treasury function in maximising efficiency in Treasury Management activity, with the Council having the 5th lowest weighted average borrowing & investment (loans fund) rate across all Scottish mainland authorities in 2020/21. The Council has consistently maintained the loans fund rate as one of the lowest across all Scottish mainland authorities for the last decade and more. Appendix 3 outlines the loans fund rate for each Scottish Local Authority in 2020/21.

Were the internal loans fund rate to have equated to the Scottish weighted average of 3.55%, this would have generated loan charges in 2020/21 of £17.9m. The Council's actual 2020/21 loan charges for General Services and HRA were £16.5m, representing a cash saving (compared to the Scotland average) of £1.4m in 2020/21.

7. Report Implications

7.1 Resource

There are no direct resource implications arising from this report.

7.2 Digital

None

7.3 Risk

The strategies outlined in this report are designed to maintain the effectiveness of the overall risk management arrangements for Treasury activity. Providing the limits outlined in the strategies are observed they will support the controls already in place in the Treasury Management Practices within which the treasury function operates.

The Prudential Indicators contained in Appendix 2 maintain the effectiveness of the overall risk management of Capital Investment and Treasury Management.

7.4 Ensuring Equalities

There are no equality issues arising from this report.

7.5 Additional Report Implications

See Appendix A.

Appendix A: Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable.

A.2 Key Drivers for Change

A.3 Key Delivery Streams

Themes addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

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

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

Not applicable.

A.8 Supporting Sustainable Development

Not applicable

Background Papers:-

Appendix 1:- Permitted Investments
Appendix 2:- Prudential Indicators
Appendix 3: Performance Indicators 2020/21
Appendix 4:- Treasury Management & Annual Investment Strategy Statement – 2022/23 Detailed

Permitted Investments

The Council uses the Link creditworthiness service for specific categories of permitted investments. This utilises credit ratings from the three main credit rating agencies – Fitch, Moody's and Standard & Poors, along with credit watches, outlooks, CDS spreads and country sovereign ratings in a weighted scoring system with an end product of a series of colour coded bands which indicate the relative creditworthiness of specific categories of counterparties for investment.

These colour codes are used by the Council to determine the maximum suggested duration for investment with that counterparty. These are as follows:-

Link Asset Services Colour Code	**Maximum Suggested Duration for Investment**
Yellow	6 years*
Dark Pink	6 years**
Light Pink	6 years**
Purple	2.5 years
Blue	1.25 years***
Orange	1.25 years
Red	7 months
Green	120 days
No colour	Not to be used

* *Note the yellow colour category is for:- UK Government Debt, or its equivalent, Money Market Funds (MMF's), and collateralised deposits where the collateral is UK Government Debt*

** *Dark Pink for Ultra Short Dated Bond Funds with a credit score of 1.25; Light Pink for Ultra Short Dated Bond Funds with a credit score of 1.5*

*** *Only applies to nationalised or semi-nationalised UK banks*

Note that the maximum suggested durations listed above have been extended by 1 year (when compared to the suggested maximum durations provided by Link) for the Yellow, Dark Pink, Light Pink categories (and so to 6 years); the Purple category by 6 months to 2.5 years; the Blue and Orange categories by 3 months to 1.25 years; the Red category by a month to 7 months, and the Green category by 20 days to 120 days. This is to allow flexibility around these durations on the margins e.g. the placement of a 13 month fixed term deposit for a counterparty rated Orange or Blue. A thorough appraisal of the additional risk involved in extending the duration of any deposit (marginally) beyond the maximum suggested by Link, against any enhanced value to the portfolio, will be undertaken prior to the placement of any deposit.

1.1 Deposits

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
Debt Management Agency Deposit Facility	--	Term	No	**100%**	**6 months**
Term deposits – local authorities	--	Term	No	**100%**	**5 years**
Call accounts – banks and building societies	Green	Instant	No	**100%**	**1 day**
Term deposits / Notice Accounts – banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**

1.2 Deposits with counterparties currently in receipt of government support / ownership

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
UK nationalised banks – Call accounts	Blue	Instant	No	**100%**	**1 day**
UK nationalised banks – Term Deposits / Notice Accounts	Blue	Term	No	**100%**	**1.25 years**
UK nationalised banks – Fixed term deposits with variable rate and variable maturities: - Structured deposits	Blue	Term	No	**100%**	**1.25 years**
Non-UK(high sovereign rated country) nationalised banks – Call accounts	Green	Instant	No	**100%**	**1 day**
Non-UK (high sovereign rated country) nationalised banks:- Term Deposits / Notice Accounts	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**
Non-UK (high sovereign rated country) nationalised banks:- Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**

If forward deposits are made, the forward period plus the deal period equate to the maximum maturity period.

1.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

Investment Category	**Minimum Credit Criteria**	**Liquidity risk**	**Market risk**	**Max %/£m of total investments**	**Max. maturity period**
Government Liquidity Funds	AAA	Instant	No	**100%**	**1 day**
Money Market Funds CNAV	AAA	Instant	No	**100%**	**1 day**
Money Market Funds LVNAV	AAA	Instant	No	**100%**	**1 day**
Money Market Funds VNAV	AAA	Instant	No	**100%**	**1 day**
Ultra Short Dated Bond Funds with a credit score of 1.25	AAA	T+1 to T+5	Yes	**100%**	**1 week**
Ultra Short Dated Bond Funds with a credit score of 1.5	AAA	T+1 to T+5	Yes	**100%**	**1 week**
Bond Funds	AAA	T+2 or longer	Yes	**50%**	**2 days**
Gilt Funds	AAA	T+2 or longer	Yes	**50%**	**2 days**

1.4 Securities issued or guaranteed by governments

Investment Category	*** Minimum Credit Criteria**	**Liquidity risk**	**Market risk**	**Max %?£m of total investments**	**Max. maturity period**
Treasury Bills	UK sovereign rating	Sale T+1	Yes	**100%**	**50 years**
UK Government Gilts	UK sovereign rating	Sale T+1	Yes	**100%**	**50 years**
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	Yes	**100%**	**50 years**
Sovereign bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	Yes	**100%**	**50 years**
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	Sale T+1	Yes	**100%**	**50 years**

1.5 Securities issued by corporate organisations

Investment Category	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period
Certificates of deposit issued by banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Sale T+0	Yes	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**
Commercial paper other	Yellow Purple Blue Orange Red Green No Colour	Sale T+0	Yes	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**
Floating rate notes	Yellow Purple Blue Orange Red Green No Colour	Sale T+2	Yes	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**
Corporate Bonds other	Yellow Purple Blue Orange Red Green No Colour	Sale T+2	Yes	**100%**	**Up to 6 yrs** **Up to 2.5 yrs** **Up to 1.25 yrs** **Up to 1.25 yrs** **Up to 7 mths** **Up to 120 days** **Not for use**

1.6 Other

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
Local authority mortgage guarantee scheme.	Blue	Term	No	**50%**	**5 years**
Loans to Third Parties	n/a	Term	No	**£25m**	**25 years**
Subordinated Debt Subscription to Newbattle Centre SPV	n/a	Term	No	**£0.326m**	**22 years**
ESCO	n/a	Term	No	**£10.2m**	**n/a**

Treasury Risks and Mitigating Controls for each type of investment are as outlined in the Treasury Management & Annual Investment Strategy Statement – 2022/23 Detailed – Appendix 5.3.

Prudential Indicators Appendix 2

1. Prudential Indicators for Affordability

These indicators provide an indication of the impact of the capital investment plans on the Council's overall finances.

1.1 Estimates of Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

Ratio of Financing Costs to Net Revenue Stream						
%	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
General Services	2.03%	1.08%	1.25%	2.60%	2.70%	2.72%
HRA	38.86%	38.27%	43.16%	55.21%	55.12%	55.17%

The figures above are based on the current General Services and HRA Capital Plans.

1.2 HRA Ratios

The following indicator identifies the ratio of overall debt on the HRA account compared to annual house rent revenue.

HRA Debt as a % of Gross Revenue						
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
HRA debt £000's	£ 172,394	£ 182,419	£ 294,230	£ 335,663	£ 342,248	£ 343,999
HRA revenues £000's	£ 30,004	£ 30,570	£ 31,950	£ 32,873	£ 34,781	£ 35,787
Ratio of debt to revenues %	575%	597%	921%	1021%	984%	961%

The following indicator identifies the ratio of overall debt on the HRA account per HRA dwelling.

HRA Debt per Dwelling						
	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Estimate	Estimate	Estimate	Estimate	Estimate
HRA debt £000's	£ 172,394	£ 182,419	£ 294,230	£ 335,663	£ 342,248	£ 343,999
Number of HRA dwellings	7,002	7,170	7,451	7,841	8,212	8,224
Debt per dwelling £	£ 24,621	£ 25,442	£ 39,489	£ 42,809	£ 41,677	£ 41,829

1.3 Net Income from Service & Commercial Investments as a proportion of Net Revenue Stream

A new indicator will be developed as part of the implementation of the new Prudential Code which identifies the ratio of net income from service and commercial investments as a proportion of the net General Services revenue stream.

2. Prudential Indicators for Capital Expenditure

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Estimated Capital Expenditure

This indicator shows the gross capital spend included in the relevant capital plans.

Capital Expenditure	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
General Services						
Place	£ 14,709	£ 14,901	£ 34,115	£ 23,718	£ 16,322	£ 9,529
People & Partnerships	£ 10,780	£ 10,489	£ 33,760	£ 35,853	£ 32,560	£ 10,747
Council Transformation	£ 69	£ 776	£ 1,019	£ 7,421	£ 11,725	£ 1,039
Provision for Return of Contingencies	£ -	£ (639)	£ (654)	£ (1,722)	£ (1,675)	£ (1,515)
Total General Services	**£ 25,558**	**£ 25,527**	**£ 68,240**	**£ 65,270**	**£ 58,933**	**£ 19,799**
Total HRA	**£ 15,632**	**£ 45,559**	**£ 124,894**	**£ 56,651**	**£ 14,858**	**£ 10,114**
Combined Total	**£ 41,190**	**£ 71,086**	**£ 193,134**	**£ 121,920**	**£ 73,790**	**£ 29,913**

2.2 Financing of Capital Expenditure

This indicator shows how the Capital Expenditure forecasts are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure and Available Financing	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Capital Expenditure						
General Services	£ 25,558	£ 25,527	£ 68,240	£ 65,270	£ 58,933	£ 19,799
HRA	£ 15,632	£ 45,559	£ 124,894	£ 56,651	£ 14,858	£ 10,114
Total	**£ 41,190**	**£ 71,086**	**£ 193,134**	**£ 121,920**	**£ 73,790**	**£ 29,913**
Financed by:						
Capital receipts	£ 998	£ 72	£ -	£ -	£ -	£ -
Capital grants	£ 20,194	£ 15,907	£ 22,214	£ 28,277	£ 11,937	£ 8,186
Capital reserves	£ -	£ 27,000	£ 3,000	£ 2,533	£ 7,694	£ -
Developer/Other Contributions	£ 3,661	£ 3,143	£ 14,822	£ 8,402	£ 8,363	£ 5,566
Net financing need for the year	**£ 16,337**	**£ 24,963**	**£ 153,098**	**£ 82,709**	**£ 45,797**	**£ 16,161**

2.3 Estimated Capital Financing Requirement

This indicator measures the Council's maximum underlying need to borrow for capital purposes and other long term liabilities over the next three years.

Capital Financing Requirement (CFR)	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Capital Financing Requirement						
CFR – General Services	£ 119,929	£ 130,387	£ 166,151	£ 202,023	£ 234,144	£ 237,587
CFR – HRA	£ 172,394	£ 182,419	£ 294,230	£ 335,663	£ 342,248	£ 343,999
CFR – PFI Schemes	£ 99,203	£ 95,914	£ 92,433	£ 88,739	£ 84,815	£ 80,661
Total CFR	**£ 391,526**	**£ 408,720**	**£ 552,814**	**£ 626,425**	**£ 661,207**	**£ 662,247**
Movement in CFR	**£ (2,376)**	**£ 17,194**	**£ 144,094**	**£ 73,611**	**£ 34,782**	**£ 1,040**
Movement in CFR represented by						
Net financing need for the year (previous table)	£ 16,337	£ 24,963	£ 153,098	£ 82,709	£ 45,797	£ 16,161
Less Scheduled Debt Amortisation	£ (8,170)	£ (5,670)	£ (5,843)	£ (10,214)	£ (10,961)	£ (10,967)
Less net PFI Finance Lease Principal Payments	£ (10,543)	£ (3,289)	£ (3,481)	£ (3,694)	£ (3,924)	£ (4,154)
Movement in CFR	**£ (2,376)**	**£ 16,004**	**£ 143,774**	**£ 68,801**	**£ 30,912**	**£ 1,040**

3. Prudential Indicators for Prudence

3.1 Net Borrowing Requirement

This indicator shows the amount of external borrowing required to finance the current debt outstanding on capital projects.

Net Borrowing Requirement	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
External Debt						
Debt at 1 April	£ 269,077	£ 274,795	£ 323,450	£ 460,382	£ 537,686	£ 576,392
Actual/Expected change in Debt	£ 5,718	£ 48,655	£ 136,932	£ 77,305	£ 38,706	£ 5,194
Other long-term liabilities (OLTL)	£ 109,746	£ 99,203	£ 95,914	£ 92,433	£ 88,739	£ 84,815
Actual/Expected change in OLTL	£ (10,543)	£ (3,289)	£ (3,481)	£ (3,694)	£ (3,924)	£ (4,154)
Actual/Expected Gross Debt at 31 March	**£ 373,998**	**£ 419,364**	**£ 552,815**	**£ 626,425**	**£ 661,207**	**£ 662,247**
The Capital Financing Requirement	**£ 391,526**	**£ 408,720**	**£ 552,814**	**£ 626,425**	**£ 661,207**	**£ 662,247**
Under / (over) borrowing	**£ 17,528**	**£ (10,644)**	**£ -**	**£ -**	**£ -**	**£ -**
Deposits						
Cash & Cash Equivalents	£ 56,287	£ 65,000	£ 25,000	£ 25,000	£ 25,000	£ 25,000
Short-Term Investments	£ 74,985	£ 70,000	£ 55,000	£ 45,000	£ 40,000	£ 40,000
Total Deposits	**£ 131,272**	**£ 135,000**	**£ 80,000**	**£ 70,000**	**£ 65,000**	**£ 65,000**

4. Prudential Indicators for External Debt

4.1 Operational Boundary

This is the limit beyond which external debt is not normally expected to exceed and will be the focus of day to day treasury management. Typically, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

For this Council:-

- the Operational Boundary for Borrowing has been calculated to equate directly to the value of the CFR for General Services and HRA combined, over the current financial year and the following 4 financial years (2021/22 to 2025/26); and
- the Operational Boundary for Other Long-Term Liabilities has been calculated to equate directly to the in-year CFR for Other Long-Term Liabilities, given the known contractual provisions for the repayment of debt within the Council's two PPP agreements.

Operational Boundary					
	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Operational Boundary - Borrowing	£ 312,806	£ 460,381	£ 537,686	£ 576,392	£ 581,586
Operational Boundary - Other long term liabilities	£ 95,914	£ 92,433	£ 88,739	£ 84,815	£ 80,661
Total	**£ 408,720**	**£ 552,814**	**£ 626,425**	**£ 661,207**	**£ 662,247**

Should the Operational Boundary be breached, for example as a result of a decision taken to borrow in advance (should market conditions indicate that it is prudent to do so), this will be reported to Council at the next available opportunity.

4.2 Authorised Limit of Total External Debt

This indicator sets the limit for total external debt.

In an active Treasury Management policy it is sometimes prudent to borrow in advance of need if interest rates are expected to rise.

In order to continue to service the ongoing external debt and finance the current capital programmes the Council needs to increase its external borrowing to £581.586 million by 31 March 2026. Within the Capital Plans, there are assumptions regarding capital receipts and developer contributions which when applied to the Council's capital plans reduce the Council's borrowing requirements. However, the realisation of these capital receipts and developer contributions carry inherent uncertainty around both the timing and value of each receipt/contribution, given that they are largely dependent upon economic and market activity which are outwith the Council's control. Therefore, in order to calculate the Authorised Limit for Borrowing, these capital receipts and developer contributions have been added to the Capital Financing Requirement, to give the Council flexibility to fully borrow in advance of need (if market conditions support this action) should these receipts and contributions be unable to be realised in the short term. This therefore reflects a level of borrowing which, while not desired, could be afforded but is not sustainable.

It is expected that, given current market conditions, no borrowing in advance of need for the remainder of 2021/22 and throughout 2022/23 will be undertaken, and that all borrowing undertaken in these periods will be aligned to match as closely as possible to the incurrence of capital expenditure in the remainder of 2021/22 and throughout 2022/23. Should market conditions materially change and which would support any borrowing in advance of need, any borrowing drawn would be supported by a business case which will appraise the anticipated savings in borrowing costs (from expected increases in rates later in the year / in forthcoming years) against the carrying cost associated with borrowing in advance of need.

Council is therefore asked to approve that, rather than restrict borrowing to £312.806 million for 2021/22, £460.381 million for 2022/23, £537.686 million for 2023/24, £576.392 million for 2024/25, and £581.586 million for 2025/26, that permission be granted to borrow up to the 2025/26 Authorised Limit for Borrowing of £621.955 million as shown in the table below), if market conditions support this action.

Adopting this approach will secure lower costs for future years but care will be taken to ensure that the cost of carry is minimised and that the maturity structure of all debt is sufficiently robust to ensure that the Capital Financing Requirement at 31 March 2026 remains achievable.

Authorised Limit					
	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Authorised Limit - Borrowing	£621,955	£621,955	£ 621,955	£ 621,955	£ 621,955
Authorised Limit - Other long term liabilities	£ 95,914	£ 92,433	£ 88,739	£ 84,815	£ 80,661
Total Debt	**£717,869**	**£714,388**	**£ 710,694**	**£ 706,770**	**£ 702,616**

Reconciliation of calculation of Authorised Limit for borrowing:-

Reconciliation of Authorised Limit for Borrowing	
	£000's
CFR - General Services at 31 March 2026	£ 237,587
CFR - HRA at 31 March 2026	£ 343,999
Capital Receipts 21/22 to 25/26 unrealised to date	£ 72
Developer/Other Contributions 21/22 to 25/26 unrealised to date	£ 40,297
Authorised Limit for Borrowing	**£ 621,955**

5. Prudential Indicators for Treasury Management

5.1 Upper limits on Fixed and Variable Interest Rates

This indicator limits the amount of external debt that may be held at fixed or variable rates. These limits are proposed to be as follows:-

Upper Limits on Exposure to Fixed and Variable Interest Rates 2022/23	
Interest rate exposures	**Upper Limit**
Limits on fixed interest rates based on gross debt	100.00%
Limits on variable interest rates based on gross debt	30.00%
Limits on fixed interest rates based on investments	100.00%
Limits on variable interest rates based on investments	100.00%

5.2 Maturity Structure of Borrowing

This indicator sets the upper and lower limits of the time scales within which external debt may be held.

The Treasury Management Code of Practice requires that LOBO's with a call date in the next 12 months are classified as short-term borrowing rather than longer-term (10 year+) borrowing.

In addition, the Code also recommends that where an authority's debt is typically very long term (i.e. for a period of greater than 10 years), that authorities should break down the period in excess of 10 years into several ranges, for example 10 to 20 years, 20 to 30 years, etc.

With the above in mind, the proposed upper and lower limits for each maturity band are shown below, with the overall aim to ensure a spreading approach to avoid a cluster of high value loans maturing/requiring refinancing within a short period of time.

Maturity Structure of Borrowing 2022/23		
Maturity structure of fixed interest rate borrowing 2022/23	**Lower**	**Upper**
Under 12 months	0.00%	50.00%
12 months to 2 years	0.00%	50.00%
2 years to 5 years	0.00%	50.00%
5 years to 10 years	0.00%	50.00%
10 years to 20 years	0.00%	50.00%
20 years to 30 years	0.00%	50.00%
30 years to 40 years	0.00%	50.00%
40 years to 50 years	0.00%	50.00%
50 years and above	0.00%	50.00%
Maturity structure of variable interest rate borrowing 2021/22	**Lower**	**Upper**
Under 12 months	0.00%	30.00%
12 months to 2 years	0.00%	30.00%
2 years to 5 years	0.00%	30.00%
5 years to 10 years	0.00%	30.00%
10 years to 20 years	0.00%	30.00%
20 years to 30 years	0.00%	30.00%
30 years to 40 years	0.00%	30.00%
40 years to 50 years	0.00%	30.00%
50 years and above	0.00%	30.00%

5.4 Total Principal Sums Invested for Periods Longer than 365 Days

This indicator relates to the total level of investments held for periods longer than 365 days.

Principal Sums Invested for > 365 Days		
Limit		£70m

The current strategy as outlined in the body of these reports is to continue to cash-back the Council's balance sheet reserves. It is expected that the majority of this will be in the form of fixed term deposits and/or certificates of deposit. Given expected reserve forecasts and the current interest rate environment, in particular the short-medium term forecast for the Council's Capital Fund and HRA Reserve, the limit for prinicipal sums invested for > 365 days has been retained at £70m.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access accounts and money market funds.

5.5 Liability Benchmark

A new indicator will be developed as part of the implementation of the new Treasury Management Code which identifies future borrowing needs against the maturity profile of the Council's existing loan portfolio.

Authority	Loans Fund Rate
West Dunbartonshire	2.29%
Aberdeenshire	2.66%
North Lanarkshire	3.03%
East Lothian	3.05%
Midlothian	3.10%
Dumfries & Galloway	3.14%
Perth & Kinross	3.15%
East Dunbartonshire	3.21%
Argyll & Bute	3.41%
Inverclyde	3.42%
East Ayrshire	3.50%
Falkirk	3.52%
Fife	3.53%
Dundee City	3.54%
Aberdeen City	3.58%
Renfrewshire	3.59%
South Ayrshire	3.64%
East Renfrewshire	3.67%
Scottish Borders	3.67%
Glasgow City	3.73%
Highland	3.73%
West Lothian	3.75%
Moray	3.87%
Stirling	3.87%
North Ayrshire	3.92%
Edinburgh City	4.26%
Angus	4.57%
Clackmannanshire	5.06%

Item 8.5
Appendix 4

Treasury Management Strategy Statement
and Annual Investment Strategy

Midlothian Council
2022/23

INDEX

1 INTRODUCTION

1.1 Background

The main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. As such, the second part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are deposited with low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any loans to third parties, commercial investment initiatives or other non-financial investments will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure),and are separate from the day to day treasury management activities.

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities

1.2 Reporting requirements

1.2.1 Capital Strategy

The CIPFA Prudential and Treasury Management Codes require all local authorities to prepare an additional report, a capital strategy report, which provides the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.

1.2.2 Treasury Management Reporting

The Council is required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of polices, estimates and actuals.

a) **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report covers:
   - the capital plans (including prudential indicators) for 2021/22 to 2025/26;
   - a policy for the statutory repayment of debt, (how residual capital expenditure is charged to revenue over time);
   - the treasury management strategy (how the investments and borrowings are to be organised) for 2022/23, including treasury indicators; and
   - a permitted investment strategy for 2022/23 (the parameters on how investments are to be managed).

b) **A mid year treasury management report** – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether the actual treasury strategy is meeting the strategy outlined in advance of the year, or whether any policies require revision.

c) **An annual treasury outturn report** – This provides details of a selection of actual prudential and treasury indicators for the previous financial year and actual treasury operations compared to the estimates within the strategy.

Scrutiny
The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit Committee with this report being presented to Audit Committee prior to consideration by Council. Revisions arising from Audit Committee consideration of the report on 25 January 2022 have been incorporated into the final version of this report.

1.3 Treasury Management Strategy for 2022/23

The strategy for 2022/23 covers two main areas:

Capital issues

- the capital expenditure plans and the prudential indicators (Section 2 of this report);
- The loans fund repayment policy (Section 2.4 of this report).

Treasury management issues

- policy on use of external service providers (Section 1.5);
- the current treasury position (Section 3.1);
- treasury indicators which limit the treasury risk and activities of the Council (Section 3.2);
- prospects for interest rates (Section 3.3);
- the borrowing strategy (Section 3.4);
- policy on borrowing in advance of need (Section 3.5);
- debt rescheduling (Section 3.6);
- the investment strategy (Section 4.1); and
- creditworthiness policy (Section 4.2).

These elements cover the requirements of the Local Government in Scotland Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and The Scottish Government Local Authority (Capital Finance & Accounting) (Scotland) Regulations 2016.

1.4 Training

The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsibe for scrutiny. A training workshop for Members was held on 5 November 2019, and a Treasury Management Briefing session for all Elected Members and Members of the Audit Committee took place on 17 February 2021. Further training will be arranged as required.

A training workshop in Treasury Management for the Financial Services team, led by the Council's Treasury Management consultants Link Group, Treasury Solutions, took place on 3 March 2016.

1.5 Treasury management consultants

The Council uses Link Group, Treasury Solutions as its external treasury management advisors.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. All decisions will be undertaken with regards to all available information, including, but not solely, our treasury advisers.

It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented, and subjected to regular review.

2 THE CAPITAL PRUDENTIAL INDICATORS 2021/22 – 2025/26

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle.

The table below summarises the Capital Expenditure forecasts:-

Table 1: Capital Expenditure

	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
General Services						
Place	£ 14,709	£ 14,901	£ 34,115	£ 23,718	£ 16,322	£ 9,529
People & Partnerships	£ 10,780	£ 10,489	£ 33,760	£ 35,853	£ 32,560	£ 10,747
Council Transformation	£ 69	£ 776	£ 1,019	£ 7,421	£ 11,725	£ 1,039
Provision for Return of Contingencies	£ -	£ (639)	£ (654)	£ (1,722)	£ (1,675)	£ (1,515)
Total General Services	**£ 25,558**	**£ 25,527**	**£ 68,240**	**£ 65,270**	**£ 58,933**	**£ 19,799**
Total HRA	**£ 15,632**	**£ 45,559**	**£ 124,894**	**£ 56,651**	**£ 14,858**	**£ 10,114**
Combined Total	**£ 41,190**	**£ 71,086**	**£ 193,134**	**£ 121,920**	**£ 73,790**	**£ 29,913**

The table below shows how the Capital Expenditure forecasts are being financed by capital or revenue resources. Any shortfall of resources results in a funding borrowing need.

Members are asked to approve the capital expenditure forecasts and the financing of these forecasts:-

Table 2: Capital Expenditure and Available Financing

	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Capital Expenditure						
General Services	£ 25,558	£ 25,527	£ 68,240	£ 65,270	£ 58,933	£ 19,799
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Total	**£ 41,190**	**£ 71,086**	**£ 193,134**	**£ 121,920**	**£ 73,790**	**£ 29,913**
Financed by:						
Capital receipts	£ 998	£ 72	£ -	£ -	£ -	£ -
Capital grants	£ 20,194	£ 15,907	£ 22,214	£ 28,277	£ 11,937	£ 8,186
Capital reserves	£ -	£ 27,000	£ 3,000	£ 2,533	£ 7,694	£ -
Developer/Other Contributions	£ 3,661	£ 3,143	£ 14,822	£ 8,402	£ 8,363	£ 5,566
Net financing need for the year	**£ 16,337**	**£ 24,963**	**£ 153,098**	**£ 82,709**	**£ 45,797**	**£ 16,161**

Note: The above financing need excludes other long term liabilities, such as PFI and leasing arrangements which already include borrowing instruments.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The second prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for (financed), will increase the CFR.

The CFR does not increase indefinitely, as annual repayments from revenue need to be made which reflect the useful life of capital assets financed from borrowing. From 1st April 2016, Local Authorities may choose whether to use scheduled debt amortisation (loans pool charges) or another suitable method of calculation in order to repay borrowing.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of scheme already include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has £53.7m of such schemes within the CFR. The Council is asked to approve the CFR projections below:

Table 3: Capital Financing Requirement (CFR)

	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Capital Financing Requirement						
CFR – General Services	£ 119,929	£ 130,387	£ 166,151	£ 202,023	£ 234,144	**£ 237,587**
CFR – HRA	£ 172,394	£ 182,419	£ 294,230	£ 335,663	£ 342,248	**£ 343,999**
CFR – PFI Schemes	£ 99,203	£ 95,914	£ 92,433	£ 88,739	£ 84,815	£ 80,661
Total CFR	**£ 391,526**	**£ 408,720**	**£ 552,814**	**£ 626,425**	**£ 661,207**	**£ 662,247**
Movement in CFR	**£ (2,376)**	**£ 17,194**	**£ 144,094**	**£ 73,611**	**£ 34,782**	**£ 1,040**
Movement in CFR represented by						
Net financing need for the year (previous table)	£ 16,337	£ 24,963	£ 153,098	£ 82,709	£ 45,797	£ 16,161
Less Scheduled Debt Amortisation	£ (8,170)	£ (5,670)	£ (5,843)	£ (10,214)	£ (10,961)	£ (10,967)
Less net PFI Finance Lease Principal Payments	£ (10,543)	£ (3,289)	£ (3,481)	£ (3,694)	£ (3,924)	£ (4,154)
Movement in CFR	**£ (2,376)**	**£ 16,004**	**£ 143,774**	**£ 68,801**	**£ 30,912**	**£ 1,040**

A key aspect of the regulatory and professional guidance is that elected members are aware of the size and scope of any commercial activity in relation to the authority's overall financial position. The capital expenditure figures shown in 2.1 and the details above demonstrate the scope of this activity and, by approving these figures, consider the scale proportionate to the Authority's remaining activity.

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 4: Balance Sheet Resources

Reserve	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
HRA Balances	£ 48,385	£ 28,763	£ 26,823	£ 22,197	£ 23,538	£ 24,307
General Fund Balances	£ 3,812	£ 3,812	£ 3,650	£ 3,650	£ 3,650	£ 3,650
Earmarked reserves	£ 25,859	£ 12,930	£ -	£ -	£ -	£ -
Provisions	£ 3,897	£ 3,236	£ 3,214	£ 2,787	£ 2,600	£ 2,500
Capital Fund	£ 24,158	£ 23,703	£ 20,703	£ 18,170	£ 10,476	£ 8,607
Total Reserves / Core Funds	**£ 106,111**	**£ 72,444**	**£ 54,390**	**£ 46,804**	**£ 40,264**	**£ 39,064**
Working capital*	£ 42,689	£ 51,913	£ 25,610	£ 23,196	£ 24,736	£ 25,936
Under/over borrowing	£ 17,528	£ (10,644)	£ -	£ -	£ -	£ -
Expected investments	**£ 131,272**	**£ 135,000**	**£ 80,000**	**£ 70,000**	**£ 65,000**	**£ 65,000**

*Working capital balances shown are estimated year-end; these may be higher mid-year

2.3 Statutory repayment of loans fund advances

Under the Local Government Finance Circular 7/2016, Council is now required to set out its policy for the statutory repayment of loans fund advances prior to the start of each financial year. The repayment of loans fund advances ensures that the Council makes a prudent provision each year to pay off an element of the accumulated loans fund advances made in previous financial years.

It is proposed to retain the methodology adopted in 2021/22 – that is as follows:-

New Assets

In accordance with Finance Circular 7/2016, for all advances made in relation to the provision of a new asset, the policy will be to defer the commencement of the first principal repayment of the loans fund advance until the financial year following the one in which the asset is first available for use.

Prudent Repayment of Loans Fund Advances

Finance Circular 7/2016 provides a variety of options to Councils for the profiling of the repayment of each loans fund advance, so long as the principle of prudence is maintained. There are 4 options available: (a) Asset Life method; (b) Statutory method; (c) Depreciation method; and (d) Funding/income profile method.

In line with the policy adopted in 2021/22, the Asset Life method shall be used for those assets in Table 6.

Table 5: Asset Classes to adopt the "Asset Life" method

Infrastructure	**Current Loans Fund Advance Period***	**Proposed Loans Fund Advance Period**
New Primary Schools/Extensions	50	60
New Leisure Centres	39	60
New Offices	25	60
Road Upgrades	29	50
Street Lighting Columns	26	50
Structures/Bridges	26	50
Footway/Cyclepaths	30	50
Town Centre Environmental Improvements	20	50
New Care Homes	33	45
Children's Play Equipment	9	20

** Average loans fund advance length*

The annual repayments under the "Asset Life" method for those asset classes as noted above will be calculated using the asset lives and will use the annuity method, to ensure consistency of approach with the Statutory method for all other asset classes (see below). The annuity interest rate that will be used to calculate loans fund principal repayments under the "Asset Life" method will be the in-year loans fund rate, which for 2021/22 is currently estimated to be 2.86%.

For all other asset classes, the policy will be to maintain the practice of previous years and apply what is termed "the Statutory Method" – following the principles of Schedule 3 of the Local Government (Scotland) Act 1975 – with all loans fund advances being repaid by the annuity method. The annuity rate that is proposed to be applied to the loans fund repayments varies will be the in-year loans fund rate, reflecting the Council's current loan and investment portfolio. The loans fund rate for 2021/22 is forecast to be 2.86%

Whilst neither the Depreciation nor the Funding/income profile methods are currently proposed, Council officers will continue to monitor whether it is appropriate to use this for future capital projects.

3 Borrowing

The capital expenditure plans set out in Section 2 provide details of the service activity of the Council. The treasury management function ensures that the Council's cash is organised in accordance with the the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of approporiate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual investment strategy.

3.1 Treasury management portfolio position

The overall treasury management portfolio as at 31 March 2021 and for the position as at 27 January 2022 are shown below for both borrowing and investments.

Table 6: Portfolio Position 31 March 2021 and 27 January 2022

Loan Type	31 March 2021		27 January 2022	
	Principal Outstanding £000's	Weighted Average Rate	Principal Outstanding £000's	Weighted Average Rate
PWLB Annuity	597	8.90%	553	8.90%
PWLB Maturity	235,424	3.28%	284,776	2.70%
LOBO	20,000	4.51%	20,000	4.51%
Market Loans	18,191	2.68%	17,721	2.68%
Salix Loans	583	0.00%	400	0.00%
Total Loans	**274,795**	**3.34%**	**323,450**	**2.81%**

Deposit Type	31 March 2021		27 January 2022	
	Principal Outstanding £000's	Weighted Average Rate	Principal Outstanding £000's	Weighted Average Rate
Bank Call Accounts	26,470	0.01%	29,914	0.16%
Money Market Funds	29,817	0.01%	21,637	0.10%
Bank Notice Accounts	14,985	0.58%	14,985	0.58%
Bank Fixed Term Deposits	-	n/a	35,000	0.41%
Other Local Authorities	60,000	1.62%	60,000	1.62%
Total Deposits	**131,272**	**0.81%**	**161,536**	**0.79%**

The Council's forward projections for borrowing and investments are summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 7: Net Borrowing Requirement	2020/21 Actual £000's	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
External Debt						
Debt at 1 April	£ 269,077	£ 274,795	£ 323,450	£ 460,382	£ 537,686	£ 576,392
Actual/Expected change in Debt	£ 5,718	£ 48,655	£ 136,932	£ 77,305	£ 38,706	£ 5,194
Other long-term liabilities (OLTL) at 1 April	£ 109,746	£ 99,203	£ 95,914	£ 92,433	£ 88,739	£ 84,815
Actual/Expected change in OLTL	£ (10,543)	£ (3,289)	£ (3,481)	£ (3,694)	£ (3,924)	£ (4,154)
Actual/Expected Gross Debt at 31 March	**£ 373,998**	**£ 419,364**	**£ 552,815**	**£ 626,425**	**£ 661,207**	**£ 662,247**
The Capital Financing Requirement	**£ 391,526**	**£ 408,720**	**£ 552,814**	**£ 626,425**	**£ 661,207**	**£ 662,247**
Under / (over) borrowing	**£ 17,528**	**£ (10,644)**	**£ -**	**£ -**	**£ -**	**£ -**
Deposits						
Cash & Cash Equivalents	£ 56,287	£ 65,000	£ 25,000	£ 25,000	£ 25,000	£ 25,000
Short-Term Investments	£ 74,985	£ 70,000	£ 55,000	£ 45,000	£ 40,000	£ 40,000
Total Deposits	**£ 131,272**	**£ 135,000**	**£ 80,000**	**£ 70,000**	**£ 65,000**	**£ 65,000**

Within the range of prudential indicators there are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following three financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Chief Officer Corporate Solutions reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

3.2 Treasury Indicators: limits to borrowing activity

The operational boundary

This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt.

For this Council:-

- the Operational Boundary for Borrowing has been calculated to equate directly to the in-year value of the CFR over the current and following 4 financial years (2021/22 to 2025/26); and
- the Operational Boundary for Other Long-Term Liabilities has been calculated to equate directly to the in-year CFR for Other Long-Term Liabilities, given the known contractual provisions for the repayment of debt within the Council's two PPP agreements.

Table 8: Operational Boundary

	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Operational Boundary - Borrowing	£ 312,806	£ 460,381	£ 537,686	£ 576,392	£ 581,586
Operational Boundary - Other long term liabilities	£ 95,914	£ 92,433	£ 88,739	£ 84,815	£ 80,661
Total	**£ 408,720**	**£ 552,814**	**£ 626,425**	**£ 661,207**	**£ 662,247**

The authorised limit for external debt

A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit (Affordable Capital Expenditure Limit) determined under section 35 (1) of the Local Government in Scotland Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised;
2. The Authorised Limit for Borrowing has been calculated by taking the maximum value of the CFR over the next 4 financial years (2022/23 to 2025/26), with the total forecast level of capital receipts and developer contributions ***added back*** to this figure (given the inherent uncertainty regarding the timing and value of these receipts/contributions):-
    a. Council is therefore asked to approve that, rather than restrict borrowing to £312.806 million for 2021/22, £460.381 million for 2022/23, £537.686 million for 2023/24, £576.392 million for 2024/25, and £581.586 million for 2025/26, that permission be granted to borrow up to the 2025/26 Authorised Limit for Borrowing of £621.955 million as shown in the table below), if market conditions support this action;

    b. Should market conditions support any borrowing in advance of need, any borrowing drawn would be supported by a business case which will appraise the anticipated savings in borrowing costs (from expected increases in rates later in the year / in forthcoming years) against the carrying cost associated with borrowing in advance of need

    c. This would have the effect of securing lower costs for future years but care would be taken to ensure that the cost of carry from borrowing early is minimized and that the maturity structure of all debt is sufficiently robust to ensure that the CFR at 31 March 2026 remains achievable.

d. The authorised limit therefore reflects a level of borrowing which, while not desired, could be afforded but is not sustainable.

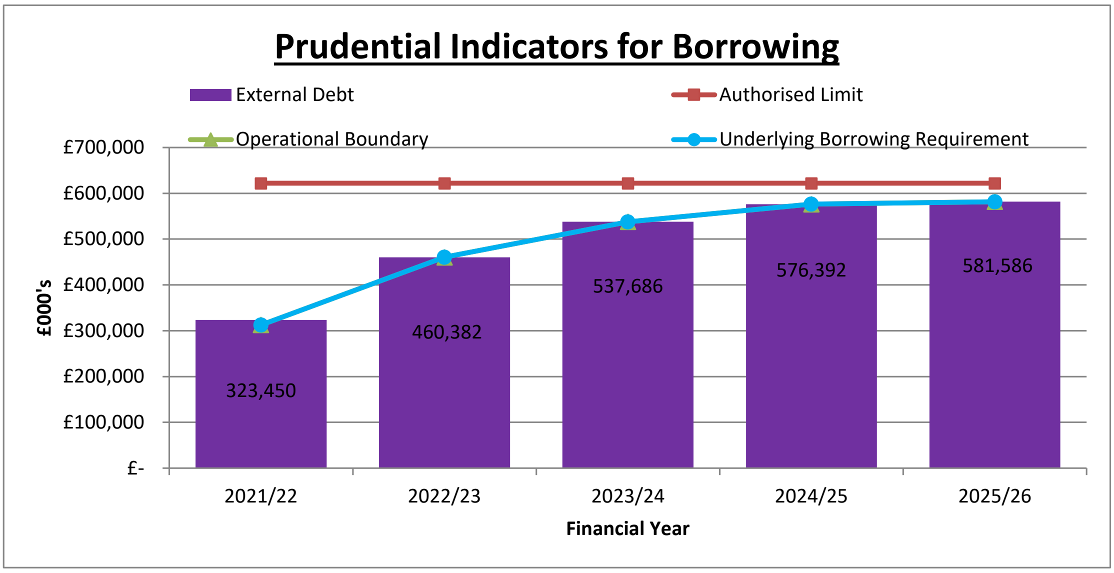
3. The Authorised Limit for Other Long-Term Liabilities has been calculated to equate directly to the Operational Boundary for Other Long-Term Liabilities, given the known contractual provisions for the repayment of debt within the Council's four DBFM agreements.

Table 9: Authorised Limit

	2021/22 Estimate £000's	2022/23 Estimate £000's	2023/24 Estimate £000's	2024/25 Estimate £000's	2025/26 Estimate £000's
Authorised Limit - Borrowing	£ 312,806	£ 460,381	£ 537,686	£ 576,392	£ 581,586
Authorised Limit - Other long term liabilities	£ 95,914	£ 92,433	£ 88,739	£ 84,815	£ 80,661
Total Debt	**£ 408,720**	**£ 552,814**	**£ 626,425**	**£ 661,207**	**£ 662,247**

Table 10: Reconciliation of Authorised Limit for Borrowing

	£000's
CFR - General Services at 31 March 2026	£ 237,587
CFR - HRA at 31 March 2026	£ 343,999
Capital Receipts 21/22 to 25/26 unrealised to date	£ 72
Developer/Other Contributions 21/22 to 25/26 unrealised to date	£ 40,297
Authorised Limit for Borrowing	**£ 621,955**



3.3 Prospects for interest rates

The Council has appointed Link Group, Treasury Solutions as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 20th December 2021. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View 20.12.21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Bank Rate													
Link	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
Capital Economics	0.50	0.75	1.00	1.25	1.25	1.25	1.25	1.25	-	-	-	-	-
5yr PWLB Rate													
Link	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
Capital Economics	1.80	1.90	2.10	2.20	2.20	2.30	2.40	2.40	-	-	-	-	-
10yr PWLB Rate													
Link	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
Capital Economics	2.00	2.10	2.20	2.30	2.30	2.40	2.50	2.50	-	-	-	-	-
25yr PWLB Rate													
Link	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
Capital Economics	2.20	2.30	2.50	2.70	2.70	2.70	2.80	2.90	-	-	-	-	-
50yr PWLB Rate													
Link	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30
Capital Economics	1.90	2.00	2.20	2.40	2.50	2.60	2.70	2.90	-	-	-	-	-

Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021.

As shown in the forecast table above, the forecast for Bank Rate now includes four increases, one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%.

Significant risks to the forecasts:-

- **Mutations** of the virus render current vaccines ineffective, and tweaked vaccines to combat these mutations are delayed, or cannot be administered fast enough to prevent further lockdowns. 25% of the population not being vaccinated is also a significant risk to the NHS being overwhelmed and lockdowns being the only remaining option.
- **Labour and supply shortages** prove more enduring and disruptive and depress economic activity.
- **The Monetary Policy Committee** acts too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- **The Monetary Policy Committee** tightens monetary policy too late to ward off building inflationary pressures.
- **The Government** acts too quickly to cut expenditure to balance the national budget.
- **UK / EU trade arrangements** – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

- **Longer term US treasury yields** rise strongly and pull gilt yields up higher than forecast.
- **Major stock markets** e.g., in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market selloffs on the general economy.
- **Geopolitical risks**, for example in Ukraine, Iran, North Korea, but also in Europe and Middle Eastern countries; on-going global power influence struggles between Russia/China/US. These could lead to increasing safe-haven flows.

The balance of risks to the UK economy:-

- The overall balance of risks to economic growth in the UK is now to the downside, including risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe for the following reasons:-

- We do not know how severe an impact Omicron could have on the economy and whether there will be another lockdown or similar and, if there is, whether there would be significant fiscal support from the Government for businesses and jobs.
- There were already increasing grounds for viewing the economic recovery as running out of steam during the autumn and now into the winter. And then along came Omicron to pose a significant downside threat to economic activity. This could lead into stagflation, or even into recession, which would then pose a dilemma for the MPC as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.
- Will some current key supply shortages spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on over £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- It looks as if the economy coped well with the end of furlough on 30th September. It is estimated that there were around 1 million people who came off furlough then and there was not a huge spike up in unemployment. The other side of the coin is that vacancies have been hitting record levels so there is a continuing acute shortage of workers. This is a potential danger area if this shortage drives up wages which then feed through into producer prices and the prices of services i.e., a second-round effect that the MPC would have to act against if it looked like gaining significant momentum.
- We also recognise there could be further nasty surprises on the Covid front beyond the Omicron mutation.

- If the UK invokes article 16 of the Brexit deal over the dislocation in trading arrangements with Northern Ireland, this has the potential to end up in a no-deal Brexit.

In summary, with the high level of uncertainty prevailing on several different fronts, Link Group expect to revise their forecasts again.

It should also be borne in mind that Bank Rate being cut to 0.25% and then to 0.10%, were emergency measures to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away such emergency cuts on no other grounds than they are no longer warranted, and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is forecast to be a steady, but slow, rise in both Bank Rate and gilt yields during the forecast period to March 2025, though there will doubtless be a lot of unpredictable volatility during this forecast period.

While monetary policy in the UK will have a major impact on gilt yields, there is also a need to consider the potential impact that rising treasury yields in America could have on our gilt yields. **As an average since 2011, there has been a 75% correlation between movements in US 10-year treasury yields and UK 10-year gilt yields. This is a significant UPWARD RISK exposure to our forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.**

US treasury yields

During the first part of 2021, US President Biden's, and the Democratic party's, determination to push through a $1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the $900bn support package already passed in December 2020. This was then followed by additional Democratic ambition to spend $1trn on infrastructure, (which was eventually passed by both houses later in 2021), and an even larger sum on an American families plan over the next decade; this is still caught up in Democrat / Republican haggling. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme had enabled a rapid opening up of the economy during 2021.
2. The economy was growing strongly during the first half of 2021 although it has weakened overall during the second half.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing substantial stimulus through monthly QE purchases during 2021.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3rd November Fed meeting, the Fed decided to make a start on tapering its $120bn per month of QE purchases so that they ended next June. However, at its **15th December meeting** it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period and after the taper ends, all other things being equal. The Fed also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

There are also possible **DOWNSIDE RISKS** from the huge sums of cash that the UK populace have saved during the pandemic; when savings accounts earn little interest, it is likely that some of this cash mountain could end up being invested in bonds and so push up demand for bonds and support their prices i.e., this would help to keep their yields down. How this will interplay with the Bank of England eventually getting round to not reinvesting maturing gilts and then later selling gilts, will be interesting to monitor.

There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors:-

- How strongly will changes in gilt yields be correlated to changes in US treasury yields? Over 10 years since 2011 there has been an average 75% correlation between movements in US treasury yields and gilt yields. However, from time to time these two yields can diverge. Lack of spare economic capacity and rising inflationary pressures are viewed as being much greater dangers in the US than in the UK. This could mean that central bank rates will end up rising earlier and higher in the US than in the UK if inflationary pressures were to escalate; the consequent increases in treasury yields could well spill over to cause (lesser) increases in gilt yields. There is, therefore, an upside risk to forecasts for gilt yields due to this correlation. The Link Group forecasts have included a risk of a 75% correlation between the two yields.
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?
- How strong will inflationary pressures actually turn out to be in both the US and the UK and so put upward pressure on treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the “taper tantrums” in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases eventually needed to suppress inflation, are likely to be faster and stronger than Bank Rate increases in the UK. This is likely to put upward pressure on treasury yields which could then spill over into putting upward pressure on UK gilt yields.

The forecasts are also predicated on an assumption that there is no break-up of the Eurozone or EU within the forecasting period, despite the major challenges that are looming up, and that there are no major ructions in international relations, especially between the US and Russia, China / North Korea and Iran, which have a major impact on international trade and world GDP growth.

The balance of risks to medium to long term PWLB rates:-

- There is a balance of upside risks to forecasts for medium to long term PWLB rates.

A new era – a fundamental shift in central bank monetary policy

One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going above a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US, before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' before starting on raising Bank Rate and the ECB now has a similar policy.
- **For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.**
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

Deposit and borrowing rates

- **Deposit returns** are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual economic circumstances may see the MPC fall short of these elevated expectations.
- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England and still remain at historically low levels. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years.
- On 25.11.20, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates which had been increased by 100 bps in October 2019. The standard and certainty margins were reduced by 100 bps but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three-year capital programme. The current margins over gilt yields are as follows: -
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

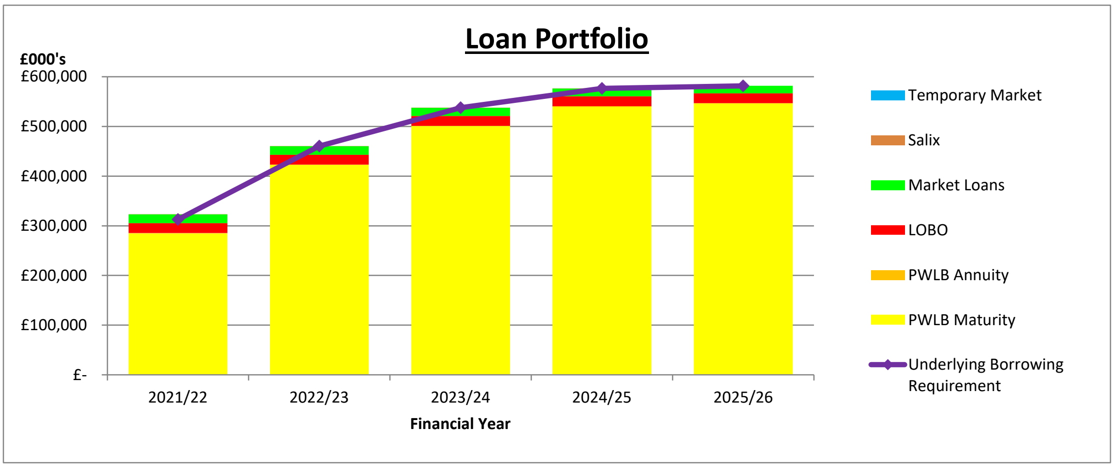
- **Borrowing for capital expenditure**. Link Group's long-term (beyond 10 years), forecast for Bank Rate is 2.00%. As some PWLB certainty rates are currently below 2.00%, there remains value in considering long-term borrowing from the PWLB where appropriate. Temporary borrowing rates are likely, however, to remain near Bank Rate and may also prove attractive as part of a balanced debt portfolio. Other forward borrowing opportunities, which largely avoid a cost of carry, will continue to be explored.
- Given the continued uncertainty in the market there may be further opportunities for further long term borrowing to be undertaken in financial year 2021/22 and into early 2022/23 to fund the Council's £251 million medium term borrowing requirement as outlined in Table 3 of the covering report. Any borrowing drawn would be supported by a business case which will appraise the anticipated savings in borrowing costs (from expected increases in rates later in the year / in forthcoming years) against the carrying cost associated with borrowing in advance of need.

A more detailed interest rate view and economic commentary is provided at appendix 5.1.

3.4 Borrowing strategy

Borrowing is undertaken to finance the Council's approved Capital plans and to do so in the most cost effective way. As can been noted from Table 4 above the Council has a significant borrowing requirement across the current and forthcoming four financial years (2021/22 to 2025/26).

The Council's projected loan portfolio over the period 2021/22 to 2025/26 is shown in graphical format below.



The Council has fully funded its current, and part of its 2022/23, borrowing requirement in a prudent way which balances (a) de-risking the longer term borrowing requirement at historically low longer term borrowing rates; against (b) the current year and forthcoming financial year budget projections.

Long-term PWLB borrowing rates for both HRA and non-HRA purposes have been at historically low levels and significantly below historical averages, with an expected gradual upward trend in these levels across the remainder of financial year 2021/22 and into 2022/23.

The Bank of England's Monetary Policy Committee raised base rate from 0.10% to 0.25% at their meeting on 16 December 2021. There are further rises forecast to base rate in

Quarter 2 of 2022 (to 0.50%) Quarter 1 of 2023 (to 0.75%), Quarter 1 of 2024 (to 1.00%) and finally, Quarter 1 of 2025, which would take the base rate to 1.25%.

With this in mind, utilisation of an element of temporary borrowing – which typically tracks close to base rate levels – within the Council's overall loan portfolio may continue to provide a cost-effective solution to the Council. The quantum of this will continue to be assessed against the backdrop of potential long term costs if the opportunity is missed to take PWLB or other market loans at historically low medium-long term rates, particularly given the projected gradual rise in PWLB rates.

The opportunity also continues to exist to consider further loans on a 'forward dealing' basis, and officers will continue to explore the viability of these loans as part of securing the long term borrowing required to meet the capital financing requirements.

Given the potential for uncertainty in the market to bring a dip in gilt yields and therefore PWLB rates, there may be further opportunities for further long term borrowing to be undertaken in financial year 2021/22 and into early 2022/23 to fund the Council's £246 million remaining medium term borrowing requirement to 2025/26 as outlined in Table 4 above. Any further borrowing drawn would be supported by a business case which will appraise the anticipated savings in borrowing costs (from expected increases in rates later in the year / in forthcoming years) against the carrying cost associated with borrowing in advance of need.

Officers will continue to ensure that any loans taken are drawn to match the existing maturity and projected capital expenditure profiles as closely as possible, that proposed interest rates continue to sit below forward interest rate projections, and that the overall borrowing remains within the Authorised Limit proposed below.

Treasury management limits on activity

There are three debt related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs / improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates for borrowing based upon the gross debt position, and variable interest rates for investments based upon the total investment position;
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates for both borrowing and investments;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

The Council is asked to approve the following treasury indicators and limits:

Upper Limits on Exposure to Fixed and Variable Interest Rates 2022/23	
Interest rate exposures	**Upper Limit**
Limits on fixed interest rates based on gross debt	100.00%
Limits on variable interest rates based on gross debt	30.00%
Limits on fixed interest rates based on investments	100.00%
Limits on variable interest rates based on investments	100.00%

Maturity Structure of Borrowing 2022/23		
Maturity structure of fixed interest rate borrowing 2022/23	**Lower**	**Upper**
Under 12 months	0.00%	50.00%
12 months to 2 years	0.00%	50.00%
2 years to 5 years	0.00%	50.00%
5 years to 10 years	0.00%	50.00%
10 years to 20 years	0.00%	50.00%
20 years to 30 years	0.00%	50.00%
30 years to 40 years	0.00%	50.00%
40 years to 50 years	0.00%	50.00%
50 years and above	0.00%	50.00%
Maturity structure of variable interest rate borrowing 2021/22	**Lower**	**Upper**
Under 12 months	0.00%	30.00%
12 months to 2 years	0.00%	30.00%
2 years to 5 years	0.00%	30.00%
5 years to 10 years	0.00%	30.00%
10 years to 20 years	0.00%	30.00%
20 years to 30 years	0.00%	30.00%
30 years to 40 years	0.00%	30.00%
40 years to 50 years	0.00%	30.00%
50 years and above	0.00%	30.00%

3.5 Policy on borrowing in advance of need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sum borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates (as detailed in Section 3.2) and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

3.6 Debt rescheduling

Rescheduling of current borrowing in our debt portfolio is unlikely to occur as there is still a very large difference between premature redemption rates and new borrowing rates, even though the general margin of PWLB rates over gilt yields was reduced by 100 bps in November 2020.

All rescheduling will be reported to the Council, at the earliest meeting following its action.

4 ANNUAL INVESTMENT STRATEGY

4.1 Investment policy

The Council's investment policy implements the requirements of the following: -

- Local Government Investments (Scotland) Regulations 2010, (and accompanying Finance Circular 5/2010);
- CIPFA Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code");
- CIPFA Treasury Management Guidance Notes 2018

The Council's investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite.

The above regulations and guidance place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. The Council applies **minimum acceptable credit criteria** in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short-term and long-term ratings.

2. Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as "**credit default swaps**" and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

4. This authority has defined the list of **types of investment instruments** that are permitted investments authorised for use in appendix 5.2. Appendix 5.3 expands on the risks involved in each type of investment and the mitigating controls.

5. **Lending limits**, (maturity tenors), for each counterparty will be set through applying the matrix table in Section 4.2 (maturity durations).

6. Investments will only placed with counterparties from countries with a specified minimum **sovereign rating**, (see paragraph 4.3).

7. Lending per **Country** and **Institution** will be set through the application of the criteria in Section 4.3 (amounts).

8. **Transaction limits** are set for each type of investment in appendix 5.2.

9. This authority will set a limit for the amount of its investments which are invested for **longer than 365 days**, (see paragraph 4.4).

10. This authority has engaged **external consultants**, (see paragraph 1.5), to provide expert advice on how to optimise an appropriate balance of security, liquidity and yield, given the risk appetite of this authority in the context of the expected level of cash balances and need for liquidity throughout the year.

11. All investments will be denominated in sterling.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance, (see paragraph 4.5). Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness policy

This Council applies the creditworthiness service provided by Link Group, Treasury Solutions. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:-

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:-

Table 14: Recommended Maximum Durations for Investments	
Link Asset Services Colour Code	**Maximum Suggested Duration for Investment**
Yellow	6 years*
Dark Pink	6 years**
Light Pink	6 years**
Purple	2.5 years
Blue	1.25 years***
Orange	1.25 years
Red	7 months
Green	120 days
No colour	Not to be used

* *Note the yellow colour category is for:- UK Government Debt, or its equivalent, Money Market Funds (MMF's), and collateralised deposits where the collateral is UK Government Debt*

** *Dark Pink for Ultra Short Dated Bond Funds with a credit score of 1.25*
Light Pink for Ultra Short Dated Bond Funds with a credit score of 1.5

*** *Applies only to nationalised or semi-nationalised UK Banks*

Note that the maximum suggested durations listed above have been extended by 1 year (when compared to the suggested maximum durations provided by Capita) for the Yellow, Dark Pink, Light Pink, Purple, Blue and Orange categories, to allow flexibility around these durations on the margins e.g. the placement of a 13 month fixed term deposit for a counterparty rated Orange or Blue. Equally, the maximum suggested duration for the Red category has been extended by a month to 8 months, on the same basis. A thorough appraisal of the additional risk involved in extending the duration of any deposit (marginally) beyond the maximum suggested by Capita, against any enhanced value to the portfolio, will be undertaken prior to the placement of any deposit.

The Link Group, Treasury Solutions creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system, it does not give undue preponderance to just one agency's ratings.

Typically the minimum credit ratings criteria the Council use will be (Fitch or equivalents):-

- Short term rating F1;
- Long term rating A-.

There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances consideration will be given to the whole range of ratings available, or other topical market information, to support their use.

All credit ratings will be monitored weekly. The Council is alerted to changes to ratings of all three agencies through its use of the Link Group, Treasury Solutions creditworthiness service.

- if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately;
- in addition to the use of credit ratings the Council will be advised of information in movements in credit default swap spreads against the iTraxx benchmark and other market data on a daily basis via its Passport website, provided exclusively to the Council by Link Group, Treasury Solutions. Extreme market movements may result in downgrade of an institution or removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition this Council will also use market data and market information, information on sovereign support for banks and the credit ratings of that supporting government.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities by 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

4.3 Country and sector limits

The Council has determined that it will only use approved counterparties from the UK, or approved counterparties from other countries with a minimum sovereign credit rating of AA- from Fitch.

The list of countries that qualify using the above criteria as at the date of this report are shown in Appendix 5.4. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

The Council will avoid a concentration of investments in too few counterparties or countries by adopting a spreading approach to investing whereby no more than £30 million will be invested in Lloyds Banking Group and the Royal Bank of Scotland Group, £15 million in any other UK counterparty, and £15 million in any one counterparty, group or country outwith the UK.

4.4 Investment strategy

Current Deposits

As at 27 January 2022, the Council's deposits were as follows:-

Counterparty	Amount £000's	Security *Long/Short Term Rating** *(Colour)***	Liquidity	Yield	UK Local Authority Investment*** £000's
MMF Aberdeen	14,910	AAAmmf *(Yellow)*	Instant Access	0.10%	1,316,048
MMF Federated	6,659	AAAmmf *(Yellow)*	Instant Access	0.10$	1,035,348
MMF LGIM	69	AAAmmf *(Yellow)*	Instant Access	0.05%	129,103
Bank of Scotland Call Account	29,900	A+/F1 (Red)	Instant Access	0.16%	454,127
Royal Bank of Scotland Call Account	13	A+/F1 *(Blue)*	Instant Access	0.01%	180,570
Svenska Handelsbanken AB Call Account	1	AA/F1+ *(Orange)*	Instant Access	0.05%	721,491
Santander	14,985	A+/F1 (*Red*)	180 day notice account	0.58%	648,018
Goldman Sachs International Bank	15,000	A+/F1 (Red)	Start: 17 Dec 2021 End: 17 Jun 2022	0.47%	1,095,653
Standard Chartered Bank	15,000	A+/F1 (Red)	Start: 17 Dec 2021 End: 17 Jun 2022	0.39%	640,018
National Bank of Canada	5,000	A+/F1 (Orange)	Start: 17 Dec 2021 End: 17 Jun 2022	0.32%	95,000
Wokingham Borough Council	15,000	Quasi-UK Government (AA- / *Yellow*)	Start: 25 Mar 2020 End: 24 Mar 2023	1.60%	3,315,722
Medway Council	15,000	Quasi-UK Government (AA- / *Yellow*)	Start: 30 Mar 2020 End: 30 Mar 2022	1.80%	
London Borough of Croydon	13,000	Quasi-UK Government (AA- / *Yellow*)	Start: 03 Apr 2020 End: 03 Oct 2022	1.85%	
Stoke on Trent City Council	2,000	Quasi-UK Government (AA- / *Yellow*)	Start: 06 Apr 2020 End: 06 Apr 2023	1.60%	
London Borough of Waltham Forest	15,000	Quasi-UK Government (AA- / *Yellow*)	Start: 06 Apr 2020 End: 06 Apr 2023	1.25%	
Total	**165,130**				**9,631,098**

** Credit Rating from Fitch*
*** Colour represents maximum recommended duration for investment per Link Group, Treasury Solutions, Treasury Solutions Credit Scoring methodology – see Appendix 2.*
**** As at 31 October 2021*

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short -term interest rates. Greater returns are usually obtainable by investing for longer periods. While an element of cash balances are required in order to manage the ups and downs of cash flow, where cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

- If it is thought that Bank Rate is likely to rise significantly within the time horizon being considered, then consideration will be given to keeping most investments as being short term or variable;
- Conversely, if it is thought that Bank Rate is likely to fall within that time period, consideration will be given to locking in higher rates currently obtainable, for longer periods.

Investment returns expectations
The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year, (based on a further increase in Bank Rate in quarter 2 of 2022), are as follows.:

Average earnings in each year	
2022/23	0.50%
2023/24	0.75%
2024/25	1.00%
2025/26	1.25%
Long term later years	2.00%

Investment treasury indicator and limit - total principal funds invested for greater than 365 days. These limits are set with regard to the Council's liquidity requirements and expected usable reserve forecasts, and are based on the availability of funds after each year-end.

The Council is asked to retain the following treasury indicator and limit: -

Principal Sums Invested for > 365 Days			
	2019/20	2020/21	2021/22
Limit	£70m	£70m	£70m

The current strategy as outlined in the body of these reports is to continue to cash-back the Council's balance sheet reserves. It is expected that the majority of this will be in the form of fixed term deposits and/or certificates of deposit. Given expected reserve forecasts and the current interest rate environment, in particular the short-medium term forecast for the Council's Capital Fund and HRA Reserve, the limit for prinicipal sums invested for > 365 days has been retained at £70m.

For its cash flow generated balances, the Council will seek to utilise its business reserve instant access accounts and money market funds.

4.5 Investment risk benchmarking

The Council will use an investment benchmark to assess the investment performance of its investment portfolio of 6 month SONIA compounded. The Council also participates in Investment Benchmarking groups with Link Group, Treasury Solutions whereby performance with other Benchmarking club members and the wider Scottish and UK Local Authority Investment benchmarking is compared.

4.6 End of year investment report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

5 Appendices

1. Economic background
2. Treasury Management Practice 1 – Permitted Investments
3. Treasury Management Practice 1 – Credit and Counterparty Risk Management
4. Approved countries for investments
5. Treasury management scheme of delegation
6. The treasury management role of the section 95 officer

5.1 APPENDIX: Economic Background

COVID-19 vaccines.

These were the game changer during 2021 which raised high hopes that life in the UK would be able to largely return to normal in the second half of the year. However, the bursting onto the scene of the Omicron mutation at the end of November, rendered the initial two doses of all vaccines largely ineffective in preventing infection. This has dashed such hopes and raises the spectre again that a fourth wave of the virus could overwhelm hospitals in early 2022. What we now know is that this mutation is very fast spreading with the potential for total case numbers to double every two to three days, although it possibly may not cause so much severe illness as previous mutations. Rather than go for full lockdowns which heavily damage the economy, the government strategy this time is focusing on getting as many people as possible to have a third (booster) vaccination after three months from the previous last injection, as a booster has been shown to restore a high percentage of immunity to Omicron to those who have had two vaccinations. There is now a race on between how quickly boosters can be given to limit the spread of Omicron, and how quickly will hospitals fill up and potentially be unable to cope. In the meantime, workers have been requested to work from home and restrictions have been placed on large indoor gatherings and hospitality venues. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in sectors like restaurants, travel, tourism and hotels which had been hit hard during 2021, but could now be hit hard again by either, or both, of government restrictions and/or consumer reluctance to leave home. Growth will also be lower due to people being ill and not working, similar to the pingdemic in July. The economy, therefore, faces significant headwinds although some sectors have learned how to cope well with Covid. However, the biggest impact on growth would come from another lockdown if that happened. The big question still remains as to whether any further mutations of this virus could develop which render all current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread until tweaked vaccines become widely available.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- In December, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak at around 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.
- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next down-turn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.

- Covid remains a major potential downside threat in all three years as we ARE likely to get further mutations.
- How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?
- Purchases of gilts under QE ended in December. Note that when Bank Rate reaches 0.50%, the MPC has said it will start running down its stock of QE.

MPC MEETING 16TH DECEMBER 2021

- The Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.
- The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.
- **On 10th December we learnt of the disappointing 0.1% m/m rise in GDP** in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.
- **On 14th December, the labour market statistics** for the three months to October and the single month of October were released. The fallout after the furlough scheme was smaller and shorter than the Bank of England had feared. The single-month data were more informative and showed that LFS employment fell by 240,000, unemployment increased by 75,000 and the unemployment rate rose from 3.9% in September to 4.2%. However, the weekly data suggested this didn't last long as unemployment was falling again by the end of October. What's more, the 49,700 fall in the claimant count and the 257,000 rise in the PAYE measure of company payrolls suggests that the labour market strengthened again in November. The other side of the coin was a further rise in the number of vacancies from 1.182m to a record 1.219m in the three months to November which suggests that the supply of labour is struggling to keep up with demand, although the single-month figure for November fell for the first time since February, from 1.307m to 1.227m.
- These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.
- **On 15th December we had the CPI inflation** figure for November which spiked up further from 4.2% to 5.1%, confirming again how inflationary pressures have been building sharply. However, Omicron also caused a sharp fall in world oil and other commodity prices; (gas and electricity inflation has generally accounted on average for about 60% of the increase in inflation in advanced western economies).
- **Other elements of inflation are also transitory** e.g., prices of goods being forced up by supply shortages, and shortages of shipping containers due to

ports being clogged have caused huge increases in shipping costs. But these issues are likely to clear during 2022, and then prices will subside back to more normal levels. Gas prices and electricity prices will also fall back once winter is passed and demand for these falls away.

- Although it is possible that the Government could step in with some **fiscal support for the economy**, the huge cost of such support to date is likely to pose a barrier to incurring further major expenditure unless it was very limited and targeted on narrow sectors like hospitality. The Government may well, therefore, effectively leave it to the MPC, and to monetary policy, to support economic growth – but at a time when the threat posed by rising inflation is near to peaking!
- This is the adverse set of factors against which the MPC had to decide on Bank Rate. For the second month in a row, the MPC blind-sided financial markets, this time with a **surprise increase in Bank Rate from 0.10% to 0.25%**. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high this week. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".
- On the other hand, it did also comment that "**the Omicron variant is likely to weigh on near-term activity**". But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation form Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer". (Recent news is that the largest port in the world in China has come down with an Omicron outbreak which is not only affecting the port but also factories in the region.)
- On top of that, there were no references this month to inflation being expected to be below the **2% target in two years' time**, which at November's meeting the MPC referenced to suggest the markets had gone too far in expecting interest rates to rise to over 1.00% by the end of the year.
- These comments indicate that there has been a material reappraisal by the MPC of the inflationary pressures since their last meeting and the Bank also increased its forecast for inflation to peak at 6% next April, rather than at 5% as of a month ago. However, as the Bank retained its guidance that only a "**modest tightening**" in policy will be required, it cannot be thinking that it will need to increase interest rates that much more. A typical policy tightening cycle has usually involved rates rising by 0.25% four times in a year. "Modest" seems slower than that. As such, the Bank could be thinking about raising interest rates two or three times next year to 0.75% or 1.00%.
- In as much as a considerable part of the inflationary pressures at the current time are indeed **transitory**, and will naturally subside, and since economic growth is likely to be weak over the next few months, this would appear to indicate that this tightening cycle is likely to be comparatively short.
- As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may imply another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3rd February. Once 0.50% is reached, the Bank would act to

start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

- **The MPC's forward guidance on its intended monetary policy** on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows:-
    - Raising Bank Rate as "the active instrument in most circumstances".
    - Raising Bank Rate to 0.50% before starting on reducing its holdings.
    - Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
    - Once Bank Rate had risen to at least 1%, it would start selling its holdings.

US.

- Shortages of goods and intermediate goods like semi-conductors, have been fuelling increases in prices and reducing economic growth potential. In November, **CPI inflation hit a near 40-year record level of 6.8%** but with energy prices then falling sharply, this is probably the peak. The biggest problem for the Fed is the mounting evidence of a strong pick-up in cyclical price pressures e.g., in rent which has hit a decades high.
- **Shortages of labour** have also been driving up wage rates sharply; this also poses a considerable threat to feeding back into producer prices and then into consumer prices inflation. It now also appears that there has been a sustained drop in the labour force which suggests the pandemic has had a longer-term scarring effect in reducing potential GDP. Economic growth may therefore be reduced to between 2 and 3% in 2022 and 2023 while core inflation is likely to remain elevated at around 3% in both years instead of declining back to the Fed's 2% central target.
- Inflation hitting 6.8% and the feed through into second round effects, meant that it was near certain that the **Fed's meeting of 15th December** would take aggressive action against inflation. Accordingly, the rate of tapering of monthly $120bn QE purchases announced at its November 3rd meeting. was doubled so that all purchases would now finish in February 2022. In addition, Fed officials had started discussions on running down the stock of QE held by the Fed. Fed officials also expected three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy. The first increase could come as soon as March 2022 as the chairman of the Fed stated his view that the economy had made rapid progress to achieving the other goal of the Fed – "maximum employment". The Fed forecast that inflation would fall from an average of 5.3% in 2021 to 2.6% in 2023, still above its target of 2% and both figures significantly up from previous forecasts. What was also significant was that this month the Fed dropped its description of the current level of inflation as being "transitory" and instead referred to "elevated levels" of inflation: the statement also dropped most of the language around the flexible average inflation target, with inflation now described as having exceeded 2 percent "for some time". It did not see Omicron as being a major impediment to the need to take action now to curtail the level of inflationary pressures that have built up, although Fed officials did note that it has the potential to exacerbate supply chain problems and add to price pressures.

See also comments in paragraph 3.3 under PWLB rates and gilt yields.

EU.

- The slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate then picked up sharply. After a contraction of -0.3% in Q1, Q2 came in with strong growth of 2%. With Q3 at 2.2%, the EU recovery was then within 0.5% of its pre Covid size. However, the arrival of Omicron is now a major headwind to growth in quarter 4 and the expected downturn into weak growth could well turn negative, with the outlook for the first two months of 2022 expected to continue to be very weak.

- **November's inflation figures** breakdown shows that the increase in price pressures is not just due to high energy costs and global demand-supply imbalances for durable goods as services inflation also rose. Headline inflation reached 4.9% in November, with over half of that due to energy. However, oil and gas prices are expected to fall after the winter and so energy inflation is expected to plummet in 2022. Core goods inflation rose to 2.4% in November, its second highest ever level, and is likely to remain high for some time as it will take a long time for the inflationary impact of global imbalances in the demand and supply of durable goods to disappear. Price pressures also increased in the services sector, but wage growth remains subdued and there are no signs of a trend of faster wage growth which might lead to persistently higher services inflation - which would get the ECB concerned. The upshot is that the euro-zone is set for a prolonged period of inflation being above the ECB's target of 2% and it is likely to average 3% in 2022, in line with the ECB's latest projection.
- **ECB tapering**. The ECB has joined with the Fed by also announcing at its meeting on 16th December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases for over half of next year. However, as inflation will fall back sharply during 2022, it is likely that it will leave its central rate below zero, (currently -0.50%), over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below the ECB's target rate despite all its major programmes of monetary easing by cutting rates into negative territory and providing QE support.
- The ECB will now also need to consider the impact of **Omicron** on the economy, and it stated at its December meeting that it is prepared to provide further QE support if the pandemic causes bond yield spreads of peripheral countries, (compared to the yields of northern EU countries), to rise. However, that is the only reason it will support peripheral yields, so this support is limited in its scope.
- The EU has entered into a **period of political uncertainty** where a new German government formed of a coalition of three parties with Olaf Scholz replacing Angela Merkel as Chancellor in December 2021, will need to find its feet both within the EU and in the three parties successfully working together. In France there is a presidential election coming up in April 2022 followed by the legislative election in June. In addition, Italy needs to elect a new president in January with Prime Minister Draghi being a favourite due to having suitable gravitas for this post. However, if he switched office, there is a significant risk that the current government coalition could collapse. That could then cause differentials between Italian and German bonds to widen when 2022 will also see a gradual running down of ECB support for the bonds of weaker countries within the EU. These political uncertainties could have repercussions on economies and on Brexit issues.

CHINA.

- After a concerted effort to get on top of the virus outbreak in Q1 2020, economic recovery was strong in the rest of **2020**; this enabled China to recover all the initial contraction. During 2020, policy makers both quashed the virus and implemented a programme of monetary and fiscal support that was particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021.

- However, the pace of economic growth has now fallen back in **2021** after this initial surge of recovery from the pandemic and looks likely to be particularly weak in 2022. China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. Chinese consumers are also being very wary about leaving home and so spending money on services. However, with Omicron having now spread to China, and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future. In addition, the current pace of providing boosters at 100 billion per month will leave much of the 1.4 billion population exposed to Omicron, and any further mutations, for a considerable time.
- The **People's Bank of China** made a start in December 2021 on cutting its key interest rate marginally so as to stimulate economic growth. However, after credit has already expanded by around 25% in just the last two years, it will probably leave the heavy lifting in supporting growth to fiscal stimulus by central and local government.
- Supply shortages, especially of coal for power generation, were causing widespread power cuts to industry during the second half of 2021 and so a sharp disruptive impact on some sectors of the economy. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

JAPAN.

- 2021 has been a patchy year in combating Covid. However, recent business surveys indicate that the economy has been rebounding rapidly in 2021 once the bulk of the population had been double vaccinated and new virus cases had plunged. However, Omicron could reverse this initial success in combating Covid.
- The Bank of Japan is continuing its **very loose monetary policy** but with little prospect of getting inflation back above 1% towards its target of 2%, any time soon: indeed, inflation was actually negative in July. New Prime Minister Kishida, having won the November general election, brought in a supplementary budget to boost growth, but it is unlikely to have a major effect.

WORLD GROWTH.

- World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum in the second half of the year, though overall growth for the year is expected to be about 6% and to be around 4-5% in 2022. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. While headline inflation will fall sharply, core inflation will probably not fall as quickly as central bankers would hope. It is likely that we are heading into a period where there will be **a reversal of world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

SUPPLY SHORTAGES.

- The pandemic and extreme weather events, followed by a major surge in demand after lockdowns ended, have been highly disruptive of extended worldwide supply chains. Major queues of ships unable to unload their goods at ports in New York, California and China built up rapidly during quarters 2 and 3 of 2021 but then halved during quarter 4. Such issues have led to a misdistribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. The latest additional disruption has been a shortage of coal in China leading to power cuts focused primarily on producers (rather than consumers), i.e., this will further aggravate shortages in meeting demand for goods. Many western countries are also hitting up against a difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods available to purchase.

5.2 APPENDIX: Treasury Management Practice (TMP1): Permitted Investments

This Council is asked to approve the following forms of investment instrument for use as permitted investments as set out in tables 1.1-1.4.

Treasury risks

All the investment instruments in tables 1.1-1.4 are subject to the following risks:-

1. **Credit and counter-party risk:** this is the risk of failure by a counterparty (bank or building society) to meet its contractual obligations to the organisation particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the organisation's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have the highest, relative, level of creditworthiness.

2. **Liquidity risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts, CDs, corporate bonds can usually be sold immediately if the need arises, there are two caveats: - a. cash may not be available until a settlement date up to three days after the sale b. there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in tables 1.1-1.4 headed as 'market risk' will show each investment instrument as being instant access, sale T+3 = transaction date plus 3 business days before you get cash, or term i.e. money is locked in until an agreed maturity date.

3. **Market risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately. However, some cash rich local authorities may positively want exposure to market risk e.g. those investing in investment instruments with a view to obtaining a long term increase in value.

4. **Interest rate risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the organisation's finances, against which the organisation has failed to protect itself adequately. This authority has set limits for its fixed and variable rate exposure in its Treasury Indicators in this report (see Section 3.4).

5. **Legal and regulatory risk:** this is the risk that the organisation itself, or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the organisation suffers losses accordingly.

Controls on treasury risks

1. **Credit and counter-party risk:** this authority has set minimum credit criteria to determine which counterparties and countries are of sufficiently high creditworthiness to be considered for investment purposes. See Sections 4.2 and 4.3.

2. **Liquidity risk:** this authority has a cash flow forecasting model to enable it to determine how long investments can be made for and how much can be invested.

3. **Market risk:** this authority does not purchase investment instruments which are subject to market risk in terms of fluctuation in their value.

4. **Interest rate risk**: this authority manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with control of risk or alternatively, seeks to minimise expenditure on interest costs on borrowing. See Section 4.4.

5. **Legal and regulatory risk:** this authority will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations.

Unlimited investments

Regulation 24 states that an investment can be shown in tables 1 / 2 as being 'unlimited' in terms of the maximum amount or percentage of the total portfolio that can be put into that type of investment. However, it also requires that an explanation must be given for using that category. The authority has given the following types of investment an unlimited category: -

1. **Debt Management Agency Deposit Facility**. This is considered to be the lowest risk form of investment available to local authorities as it is operated by the Debt Management Office which is part of H.M. Treasury i.e. the UK Government's sovereign rating stands behind the DMADF. It is also a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts.

2. **High credit worthiness banks and building societies**. See paragraph 4.2 for an explanation of this authority's definition of high credit worthiness. While an unlimited amount of the investment portfolio may be put into banks and building societies with high credit worthiness, the authority will ensure diversification of its portfolio ensuring that no more than £15 million can be placed with any one institution or group at any one time, other than the Bank of Scotland or Royal Bank of Scotland where the limit is £30 million.

Objectives of each type of investment instrument

Regulation 25 requires an explanation of the objectives of every type of investment instrument which an authority approves as being 'permitted'.

1. DEPOSITS

The following forms of 'investments' are actually more accurately called deposits as cash is deposited in an account until an agreed maturity date or is held at call.

a) **Debt Management Agency Deposit Facility.** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. However, it is very useful for authorities whose overriding priority is the avoidance of risk. The longest period for a term deposit with the DMADF is 6 months.

b) **Term Deposits – Local Authorities.** They are quasi-Government bodies with low counterparty and value risk. Typical deposit terms vary from 1 month to 2 years, with longer term deposits offering an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and typically higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date other than with agreement of the counterparty, at which point penalties would typically apply.

c) **Call accounts with high credit worthiness banks and building societies.** See Section 4.2 for an explanation of this authority's definition of high credit worthiness. These typically offer a much higher rate of return than the DMADF and now that measures have been put in place to avoid over reliance on credit ratings, the authority feels much more confident that the residual risks around using such banks and building societies are at a low, reasonable and acceptable level. There is instant access to recalling cash deposited (or short-dated notice e.g. 15-30 days). This generally means accepting a lower rate of interest than that which could be earned from the same institution by making a term deposit (see 1d below). However, there are a number of call accounts which at the time of writing, offer rates 2 – 3 times more than term deposits with the DMADF. Some use of call accounts is highly desirable to ensure that the authority has ready access to cash when needed to pay bills.

d) **Term deposits with high credit worthiness banks and building societies.** The objectives are as for 1c. These offer a much higher rate of return than the DMADF and deposits made with other Local Authorities (dependent upon term) and, similar to 1c, now that measures have been put in place to avoid over reliance on credit ratings, the authority feels much more confident that the residual risks around using such banks and building societies are at a low, reasonable and acceptable level. This is the most widely used form of investing used by local authorities. The authority will ensure diversification of its portfolio of deposits ensuring that no more than £15 million is invested with any (non-nationalised) UK counterparty, and no more than £15 million is invested with any other non-UK counterparty, group or country. In addition, longer term deposits offer an opportunity to increase investment returns by locking in high rates ahead of an expected fall in the level of interest rates. At other times, longer term rates can offer good value when the markets incorrectly assess the speed and timing of interest rate increases. This form of investing therefore, offers a lot of flexibility and higher earnings than the DMADF. Where it is restricted is that once a longer term investment is made, that cash is locked in until the maturity date.

e) Fixed term deposits with variable rate and variable maturities (structured deposits). This encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide councils with greater flexibility to adopt new instruments as and when they are brought to the market. This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide greater flexibility to adopt new instruments as and when they are brought to the market.

2. DEPOSITS WITH COUNTERPARTIES CURRENTLY IN RECEIPT OF UK GOVERNMENT SUPPORT / OWNERSHIP

These banks offer another dimension of creditworthiness in terms of UK Government backing through either direct (partial or full) ownership. The view of this authority is that such backing makes these banks attractive institutions with whom to place deposits, and that will remain our view if the UK sovereign rating were to be downgraded in the coming year.

a. **Call accounts.** As for 1c. but UK Government stated support implies that the UK Government stands behind these banks and building societies and will be deeply committed to providing whatever support that may be required to ensure the continuity of such institutions. This authority feels this indicates a low and acceptable level of residual risk.

b. **Term deposits with high credit worthiness banks which are fully or semi nationalised.** As for 1d. but Government ownership partial or full implies that the UK Government stands behind this bank and will be deeply committed to providing whatever support that may be required to ensure the continuity of that bank. This authority considers this indicates a low and acceptable level of residual risk.

c. **Fixed term deposits with variable rate and variable maturities (structured deposits).** As for 1e but UK Government stated support implies that the UK Government stands behind eligible banks and building societies and will be deeply committed to providing whatever support that may be required to ensure the continuity of such institutions. This authority feels this indicates a low and acceptable level of residual risk. This line encompasses ALL types of structured deposits. There has been considerable change in the types of structured deposits brought to the market over the last few years, some of which are already no longer available. In view of the fluidity of this area, this is a generic title for all structured deposits so as to provide greater flexibility to adopt new instruments as and when they are brought to the market.

3. COLLECTIVE INVESTMENT SCHEMES STRUCTURED AS OPEN ENDED INVESTMENT COMPANIES (OEICS)

a. **Government liquidity funds.** These are the same as money market funds (see below) but only invest in government debt issuance with highly rated governments. Due to the higher quality of underlying investments, they offer a lower rate of return than MMFs. However, their net return is typically on a par with the DMADF, but with instant access.

b. **Money Market Funds (MMFs).** By definition, MMFs are AAA rated and are widely diversified, using many forms of money market securities including types which this authority does not currently have the expertise or capabilities to hold directly. However, due to the high level of expertise of the fund managers and the huge amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification and good rates of return compared to equivalent instant access facilities. They are particularly advantageous in falling interest rate environments as their 60 day WAM means they have locked in investments earning higher rates of interest than are currently available in the market. MMFs also help an authority to diversify its own portfolio as e.g. a £2m investment placed directly with HSBC is a 100% risk exposure to HSBC whereas £2m invested in a MMF may end up with say £10,000 being invested with HSBC through the MMF. For authorities particularly concerned with risk exposure to banks, MMFs offer an effective way of minimising risk exposure while still getting much better rates of return than available through the DMADF.

c. **Ultra Short Dated Bond Funds .** These funds are similar to MMFs, can still be AAA rated but have Variable Net Asset Values (VNAV) as opposed to a traditional MMF which has a Constant Net Asset Value (CNAV). They aim to achieve a higher yield and to do this either take more credit risk or invest out for longer periods of time, which means they are more volatile. These funds can have WAM's and Weighted Average Life (WAL's) of 90 – 365 days or even longer. Their primary objective is yield and capital preservation is second. They therefore are a higher risk than MMFs and correspondingly have the potential to earn higher returns than MMFs.

d. **Gilt funds.** These are funds which invest only in U.K. Government gilts. They offer a lower rate of return than bond funds but are highly rated both as a fund and through investing only in highly rated government securities. They offer a higher rate of return than investing in the DMADF but they do have an exposure to movements in market prices of assets held.

e. **Bond funds.** These can invest in both government and corporate bonds. This therefore entails a higher level of risk exposure than gilt funds and the aim is to achieve a higher rate of return than normally available from gilt funds by trading in non-government bonds.

4. SECURITIES ISSUED OR GUARANTEED BY GOVERNMENTS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it matures or is sold. The annual earnings on a security is called a yield i.e. it is normally the interest paid by the issuer divided by the price you paid to purchase the security unless a security is initially issued at a discount e.g. treasury bills..

a. **Treasury bills.** These are short term bills (up to 12 months, although none have ever been issued for this maturity) issued by the Government and so are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales could incur a net cost during the period of ownership.

b. **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK. The yield is higher than the rate of interest paid by the DMADF and another advantage compared to a time deposit in the DMADF is that they can be sold if there is a need for access to cash at any point in time. However, there is a spread between purchase and sale prices so early sales may incur a net cost. Market movements that occur between purchase and sale may also have an adverse impact on proceeds. The advantage over Treasury bills is that they generally offer higher yields the longer it is to maturity (for most periods) if the yield curve is positive.

c. **Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government** e.g. National Rail. This is similar to a gilt due to the explicit Government guarantee.

d. **Sovereign bond issues (other than the UK govt) denominated in Sterling.** As for gilts but issued by other nations. Use limited to issues of nations with at least the same sovereign rating as for the UK.

e. **Bonds issued by Multi Lateral Development Banks (MLDBs).** These are similar to c. and e. above but are issued by MLDBs which are typically guaranteed by a group of sovereign states e.g. European Bank for Reconstruction and Development.

5. SECURITIES ISSUED BY CORPORATE ORGANISATIONS

The following types of investments are where an authority directly purchases a particular investment instrument, a security, i.e. it has a market price when purchased and that value can change during the period the instrument is held until it is sold. The annual earnings on a security is called a yield i.e. is the interest paid by the issuer divided by the price you paid to purchase the security. These are similar to the previous category but corporate organisations can have a wide variety of credit worthiness so it is essential for local authorities to only select the organisations with the highest levels of credit worthiness. Corporate securities are generally a higher risk than government debt issuance and so earn higher yields.

a. **Certificates of deposit (CDs).** These are shorter term securities issued by deposit taking institutions (mainly financial institutions). They are negotiable instruments, so can be sold ahead of maturity and also purchased after they have been issued. However, that liquidity can come at a price, where the yield could be marginally less than placing a deposit with the same bank as the issuing bank.

b. **Commercial paper.** This is similar to CDs but is issued by commercial organisations or other entities. Maturity periods are up to 365 days but commonly 90 days.

c. **Corporate bonds.** These are (long term) bonds (usually bearing a fixed rate of interest) issued by a financial institution, company or other non-government issuer in order to raise capital for the institution as an alternative to issuing shares or borrowing from banks. They are generally seen to be of a lower creditworthiness than government issued debt and so usually offer higher rates of yield.

d. **Floating rate notes.** These are bonds on which the rate of interest is established periodically with reference to short-term interest rates.

6. OTHER

a. Local Authority Mortgage Scheme. Authorities who are participating in the Local Authority Mortgage Guarantee Scheme (LAMS) may be required to place a deposit with the mortgage provider(s) up to the full value of the guarantee. The deposit will be in place for the term of the guarantee i.e. 5 years (with the possibility of a further 2 year extension if the account is 90+ days in arrears at the end of the initial 5 years) - and may have conditions / structures attached. The mortgage provider will not hold a legal charge over the deposit.

b. Loans to third parties – This would involve the Council borrowing from the PWLB/markets and onward lending to Registered Social Landlords to enable them to access lower cost loans and kickstart developments of affordable mid-market homes. The risk associated with such an investment would be mitigated by an assessment of the counterparty in advance of any loan being granted and through the application of a premium on the loan rate. Interest would be paid by the RSL over the term of the loan, with repayment of principal upon the earlier of 10/20 years or at the point of house sales. The Council will also request that a standard security is taken over the property which would allow the Council to require the sale of the homes to another landlord, providing greater risk mitigation.

c. **Subordinated Debt Subscription to the SPV set up to deliver the Newbattle Centre project –** this involved the Council subscribing £332,806 of subordinated debt to the SPV that was set up to deliver the Newbattle Centre project (2 year construction and 25 year operational contract length). The length of the investment is 25 years with the subscription made at operation commencement of the contract. The repayment profile will comprise 81% of the principal remaining invested until the final two years of the contract. The risk associated with this type of investment will be mitigated through an annual assessment as a minimum to review the holding of such debt, and whether the exposure to risk arising from the investment has changed over the period.

d. **ESCO:** Midlothian Energy Limited (MEL) Joint Venture between Midlothian Council and Vattenfall to deliver energy supply to Shawfair using heat supplied from the Millerhill Energy from Waste plant and related projects.

Table 1: Permitted Investments

1.1 Deposits

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period	Max Transaction Value
Debt Management Agency Deposit Facility	UK Government	Term	No	**100%**	**6 months**	**£30m**
Term deposits – local authorities	Quasi-UK Government	Term	No	**100%**	**5 years**	**£15m**
Call accounts – banks and building societies	Green	Instant	No	**100%**	**1 day**	**£15m**
Term deposits / Notice Accounts – banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use**	**£15m**
Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use**	**£15m**

1.2 Deposits with counterparties currently in receipt of government support / ownership

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period	Max Transaction Value
UK nationalised banks – Call accounts	Blue	Instant	No	**100%**	**1 day**	**£30m**
UK nationalised banks – Term Deposits / Notice Accounts	Blue	Term	No	**100%**	**2 years**	**£30m**
UK nationalised banks – Fixed term deposits with variable rate and variable maturities: - Structured deposits	Blue	Term	No	**100%**	**2 years**	**£30m**
Non-UK (high sovereign rated country) nationalised banks – Call accounts	Green	Instant	No	**100%**	**1 day**	**£15m**
Non-UK (high sovereign rated country) nationalised banks:- Term Deposits / Notice Accounts	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use**	**£15m**
Non-UK (high sovereign rated country) nationalised banks:- Fixed term deposits with variable rate and variable maturities: - Structured deposits	Yellow Purple Blue Orange Red Green No Colour	Term	No	**100%**	**Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use**	**£15m**

If forward deposits are made, the forward period plus the deal period equate to the maximum maturity period.

1.3 Collective investment schemes structured as Open Ended Investment Companies (OEICs)

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period	Max Transaction Value
Government Liquidity Funds	AAA	Instant	No	**100%**	**1 day**	**£15m**
Money Market Funds CNAV	AAA	Instant	No	**100%**	**1 day**	**£15m**
Money Market Funds LVNAV	AAA	Instant	No	**100%**	**1 day**	**£15m**
Money Market Funds VNAV	AAA	Instant	No	**100%**	**1 day**	**£15m**
Ultra Short Dated Bond Funds with a credit score of 1.25	AAA	T+1 to T+5	Yes	**100%**	**1 week**	**£15m**
Ultra Short Dated Bond Funds with a credit score of 1.5	AAA	T+1 to T+5	Yes	**100%**	**1 week**	**£15m**
Bond Funds	AAA	T+2 or longer	Yes	**50%**	**2 days**	**£15m**
Gilt Funds	AAA	T+2 or longer	Yes	**50%**	**2 days**	**£15m**

1.4 Securities issued or guaranteed by governments

Investment Category	* Minimum Credit Criteria	Liquidity risk	Market risk	Max %?£m of total investments	Max. maturity period
Treasury Bills	UK sovereign rating	Sale T+1	Yes	**100%**	**6 months**
UK Government Gilts	UK sovereign rating	Sale T+1	Yes	**100%**	**50 years**
Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	UK sovereign rating	Sale T+3	Yes	**100%**	**50 years**
Sovereign bond issues (other than the UK govt)	AAA (or state your criteria if different)	Sale T+1	Yes	**100%**	**50 years**
Bonds issued by multilateral development banks	AAA (or state your criteria if different)	Sale T+1	Yes	**100%**	**50 years**

1.5 Securities issued by corporate organisations

Investment Category	* Minimum Credit Criteria	Liquidity risk	Market risk	Max % of total investments	Max. maturity period	Max Transaction Value
Certificates of deposit issued by banks and building societies	Yellow Purple Blue Orange Red Green No Colour	Sale T+1	Yes	**100%**	**Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use**	**£15m**
Commercial paper other	Yellow Purple Blue Orange Red Green No Colour	Sale T+0	Yes	**100%**	**Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use**	**£15m**
Floating rate notes	Yellow Purple Blue Orange Red Green No Colour	Sale T+2	Yes	**100%**	**Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use**	**£15m**
Corporate Bonds other	Yellow Purple Blue Orange Red Green No Colour	Sale T+2	Yes	**100%**	**Up to 6 yrs Up to 2.5 yrs Up to 1.25 yrs Up to 1.25 yrs Up to 7 mths Up to 120 days Not for use**	**£15m**

1.6 Other

Investment Category	Minimum Credit Criteria	Liquidity risk	Market risk	Max %/£m of total investments	Max. maturity period
Local authority mortgage guarantee scheme.	Blue	Term	No	**50%**	**5 years**
Loans to Third Parties	n/a	Term	No	**£25m**	**20 years**
Subordinated Debt Subscription to Newbattle Centre SPV	n/a	Term	No	**£0.326m**	**22 years**
ESCO	n/a	Term	No	**£10.2m**	**n/a**

5.3 APPENDIX: Treasury Management Practice (TMP1) – Credit and Counterparty Risk Management

Midlothian Council Permitted Investments, Associated Controls and Limits

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
Cash type instruments			
a. Deposits with the Debt Management Account Facility (UK Government) (**Very low risk)**	This is a deposit with the UK Government and as such counterparty and liquidity risk is very low, and there is no risk to value. Deposits can be between overnight and 6 months.	Little mitigating controls required. As this is a UK Government investment the monetary limit is unlimited to allow for a safe haven for investments.	As shown in Appendix 5.2.
b. Deposits with other local authorities or public bodies **(Very low risk)**	These are considered quasi UK Government debt and as such counterparty risk is very low, and there is no risk to value. Deposits can only be broken with the agreement of the counterparty, and penalties can apply. Deposits with other non-local authority bodies will be restricted to the overall credit rating criteria.	Little mitigating controls required for local authority deposits, as this is a quasi UK Government investment. Non- local authority deposits will follow the approved credit rating criteria.	As shown in Appendix 5.2.
c. CNAV, LVNAV and VNAV Money Market Funds (MMFs) **(Low to very low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the MMF has a “AAA” rated status from either Fitch, Moody’s or Standard & Poors.	As shown in Appendix 5.2.
d. Ultra Short Dated Bond Funds **(low risk)**	Pooled cash investment vehicle which provides very low counterparty, liquidity and market risk. These will primarily be used as liquidity instruments.	Funds will only be used where the Ultra Short Dated Bond Fund has a “AAA” rated status from either Fitch, Moody’s or Standard and Poor’s.	As shown in Appendix 5.2.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
e. Call account deposit accounts with financial institutions (banks and building societies) **(Low risk depending on credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b) and (c) above. Whilst there is no risk to value with these types of investments, liquidity is high and investments can be returned at short notice.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's, with the credit scoring methodology by Link Group, Treasury Solutions overlaid. On day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.
f. Term deposits with financial institutions (banks and building societies) **(Low to medium risk depending on period & credit rating)**	These tend to be low risk investments, but will exhibit higher risks than categories (a), (b), (c) and (d) above. Whilst there is no risk to value with these types of investments, liquidity is low and term deposits can only be broken with the agreement of the counterparty, and penalties may apply.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's, with the credit scoring methodology by Link Group, Treasury Solutions overlaid. On day to day investment dealing, this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
g. Government Gilts and Treasury Bills **(Very low risk)**	These are marketable securities issued by the UK Government and as such counterparty and liquidity risk is very low, although there is potential risk to value arising from an adverse movement in interest rates (no loss if these are held to maturity.	Little counterparty mitigating controls are required, as this is a UK Government investment. The potential for capital loss will be reduced by limiting the maximum monetary and time exposures	As shown in Appendix 5.2.
h. Certificates of deposits with financial institutions **(Low risk)**	These are short dated marketable securities issued by financial institutions and as such counterparty risk is low, but will exhibit higher risks than categories (a), (b) and (c) above. There is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates (no loss if these are held to maturity). Liquidity risk will normally be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. The selection defaults to the lowest available colour band / credit rating to provide additional risk control measures. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.
i. Structured deposit facilities with banks and building societies (escalating rates, de-escalating rates etc.) (Low to medium risk depending on period & credit rating)	These tend to be medium to low risk investments, but will exhibit higher risks than categories (a), (b), (c) and (d) above. Whilst there is no risk to value with these types of investments, liquidity is very low and investments can only be broken with the agreement of the counterparty (penalties may apply).	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's, with the credit scoring methodology by Link Group, Treasury Solutions overlaid. On day to day investment dealing, this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
j. Corporate bonds **(Medium to high risk depending on period & credit rating)**	These are marketable securities issued by financial and corporate institutions. Counterparty risk will vary and there is risk to value of capital loss arising from selling ahead of maturity if combined with an adverse movement in interest rates. Liquidity risk will be low.	The counterparty selection criteria approved above restricts lending only to high quality counterparties, measured primarily by credit ratings from Fitch, Moody's and Standard and Poor's. The selection defaults to the lowest available colour band / credit rating to provide additional risk control measures. Corporate bonds will be restricted to those meeting the base criteria. Day to day investment dealing with this criteria will be further strengthened by the use of additional market intelligence.	As shown in Appendix 5.2.

Type of Investment	Treasury Risks	Mitigating Controls	Council Limits
Other types of investments			
k. Loans to third parties	Using the example of a loan to a RSL, these would be medium risk investments, exhibiting higher risks than categories (a)-(f) above. They are also highly illiquid and are only repaid at the end of a defined period of time (up to 20 years) or on the sale of a property, whichever is the earlier.	The risk associated with such an investment would be mitigated through the application of a premium on the loan rate. The Council will also request that a standard security is taken over the property which would allow the Council to require the sale of the homes to another landlord, providing greater risk mitigation.	£25m
l. Non-local authority shareholdings	These are non-service investments which may exhibit market risk, be only considered for longer term investments and will be likely to be liquid.	Any non-service equity investment will require separate Member approval and each application will be supported by the service rational behind the investment and the likelihood of loss.	Per Existing
m. Local Authority Mortgage Scheme (LAMS)	These are service investments at market rates of interest plus a premium.		As shown in Appendix 5.2.
n. Subordinated Debt Subscription to Newbattle Centre SPV	These are investments that are exposed to the success or failure of individual projects and are highly illiquid.	The Council and Scottish Government (via the SFT) are participants in and party to the governance and controls within the project structure. As such they are well placed to influence and ensure the successful completion of the project's term.	As shown in Appendix 5.2.
o. ESCO	These are investments that are exposed to the success or failure of individual projects and are highly illiquid.	The Council is in a joint venture partnership and therefore party to the governance and controls within the project structure. As such the Council is	As shown in Appendix 5.2.

		well placed to influence and ensure the successful completion of the project's term	

The Monitoring of Deposit Counterparties - The status of counterparties will be monitored regularly. The Council receives credit rating and market information from Link Group, Treasury Solutions, including when ratings change, and counterparties are checked promptly. On occasion ratings may be downgraded when an investment has already been made. The criteria used are such that a minor downgrading should not affect the full receipt of the principal and interest. Any counterparty failing to meet the criteria will be removed from the list immediately by the Chief Officer Corporate Solutions, and if required new counterparties which meet the criteria will be added to the list.

5.4 APPENDIX: Approved countries for investments

Based on the lowest available rating as at 27.01.2022

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

5.5 APPENDIX: Treasury management scheme of delegation

(i) Full Council

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

(iii) Audit Committee

- reviewing treasury management reports, the treasury management policy and procedures, and making recommendations to the responsible body.

5.6 APPENDIX: The treasury management role of the section 95 officer

The S95 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers;
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe;
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money;
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority;
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing;
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources;
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities;
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees ensuring that members are adequately informed and understand the risk exposures taken on by an authority;
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above;
- creation of Treasury Management Practices which specifically deal with how non-treasury investments will be carried out and managed, to include the following:-
    - Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;
    - Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;
    - Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;
    - Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;

- Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.

Environmental Crime Enforcement Strategy

Report by Kevin Anderson, Executive Director - Place

Report for Decision

1 Recommendations

Council is recommended to approve the Environmental Crime Enforcement Strategy.

2 Purpose of Report

The purpose of this report is to provide Midlothian Council with an appropriate Strategy for our teams to engage, educate and robustly enforce environmental crime incidents, including fly-tipping, littering, dog fouling and other associated offences.

Date: 31 January 2022
Report Contact: Derek Oliver, Chief Officer - Place
Email: derek.oliver@midlothian.gov.uk

3 Background

3.1 Midlothian Council Labour Group tabled a Notice of Motion on 29th June 2021 with regards to working with local groups and individuals to improve open spaces; provision of public space bins; and environmental enforcement using private companies; and requested that a report be presented. A report was presented at August 2021 Council meeting, where Council approved Officers to develop a Midlothian Environmental Crime Strategy, led by Protective Services; and report to Council.

4 Environmental Enforcement

4.1 Currently, environmental offences are investigated and actioned by the Environmental Health Service. With the range of statutory functions and, most recently the Covid pandemic, to regulate and enforce, the priority of response is targeted towards the higher public health and safety risks.

4.2 The Environmental Health Service and Police Scotland's Midlothian Community Action Team have worked effectively together over the past 18 months with regards to fly-tipping offences, with three individuals charged with associated offences. The reports have been submitted to the Procurator Fiscal.

4.3 With the stretch on resource within Environmental Health, an alternative model to pursue offenders for littering, dog fouling etc is required to robustly deal with perpetrators and serve as a deterrent. An approved Environmental Crime Enforcement Strategy will provide the framework for all associated offences to be tackled and improve the visual amenity and environment of Midlothian.

5 Midlothian Environmental Crime Enforcement Strategy

5.1 The Strategy implements a visible enforcement service to tackle environmental crime. The subject and composition of the team is subject to a separate Council report. The team will ensure that our residents and businesses are both informed and educated about the importance of maintaining a clean, green local environment.

5.2 A suite of interventions, including the highlighting and utilisation of all regulatory powers and provisions, is prescribed within the Strategy, necessary to combat environmental crimes.

5.3 The Strategy Implementation Plan details the prescribed actions with timescales.

7 Performance Reporting

7.1 With the significant partnership working with both Police Scotland and the Scottish Fire and Rescue Service, with regards to environmental crime, reporting performance regularly to the Police and Fire & Rescue Board would provide the necessary governance structure, robust process and scrutiny to the operations and management of this regulatory function going forward.

8 Report Implications

8.1 Resource

The Strategy Implementation Plan is predominantly resourced through existing budgets and staffing establishments. Service provision of one tonne bags for specific domestic waste materials, to encourage appropriate disposal, together with relevant plant to facilitate collection will be undertaken on a pilot basis to test its viability and impact. This facility will be ideal for small garden, DIY or household projects like renovations which have quite a bit of messy, loose waste and/or very heavy waste like bricks, soil or broken tiles.
They are also a great alternative to a skip if there is very limited access and not enough space to put down a skip.

There would be a revenue expenditure requirement of purchase of appropriate bags and hire of 17 tonne tipper vehicle with clam. The pilot would extend from May to September. The cost of plant hire and bags would be circa £20,000, although collections would be chargeable and offset these costs. Staff resource would be taken from the existing Waste Services establishment. Collected bag contents will be sorted to maximise reuse/recycling and minimise landfill disposal.

The assessment and options appraisal for the creation of an environmental crime enforcement resource is contained within a separate Council report.

6.2 Digital

Not applicable at this stage.

6.3 Risk

Additional resource will be required to target environmental crime if contractors are not appointed. This will have a reputational and financial implication on the Council for environmental crime.

6.4 Ensuring Equalities

Having a robust response to environmental crime and the ongoing partnership working with communities is vital to Midlothian's community safety. The subject of this report has a positive impact in the environment and as such does not affect the wellbeing of the community or have a significant detrimental impact on equality, the environment or economy.

6.5 Additional Report Implications

See Appendix A

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan
The route map outlines the phases of service recovery and transformation which will underpin the Single Midlothian Plan.

A.2 Key Drivers for Change
Key drivers addressed in this report:

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

A.3 Key Delivery Streams
Key delivery streams addressed in this report:

- [x] One Council Working with you, for you
- [x] Preventative and Sustainable
- [x] Efficient and Modern
- [x] Innovative and Ambitious
- [ ] None of the above

A.4 Delivering Best Value
The report aims to deliver best value.

A.5 Involving Communities and Other Stakeholders
Consultation with communities, local groups, Police Scotland and SFRS will be imperative.

A.6 Impact on Performance and Outcomes
The report aims to measure progress through outcomes.

A.7 Adopting a Preventative Approach
The report is based on the creation of a wellbeing economy which prioritises prevention, fairness for people, the economy and the environment.

A.8 Supporting Sustainable Development
The improvement and enhancement of our environment.

Your Neighbourhood Your Environment Your Midlothian

Environmental Crime Enforcement Strategy

Midlothian – a great, *green* place to grow.

Our Vision
Working with our communities, Midlothian Council is committed to protecting our local heritage and ensuring that our neighbourhoods, green spaces, streets and public areas are well maintained and managed.

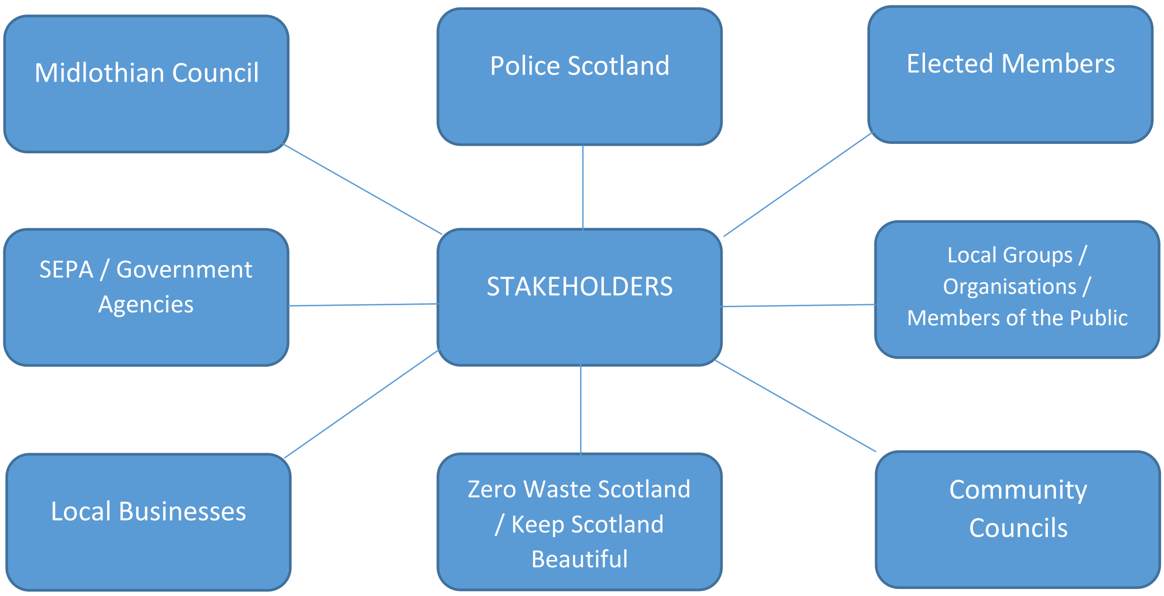
A vital part of this objective is tackling environmental crime.

Issues such as fly-tipping, littering, dog fouling, graffiti and fly-posting can have a huge impact on people, wildlife, local pride and the appearance and reputation of an area. Responding to environmental crime also has impacts on Council resources.

Our Vision is to eliminate these issues through preventative interventions; robust zero-tolerance enforcement, utilising the full suite of our powers; and promote behavioural change through education and deterrence. In doing so, we seek to improve the quality of life and local environment for all those living, working and visiting Midlothian.

Our Mission Statement
To protect Midlothian's environment and community health and wellbeing by working with partners to implement a balanced blend of Engagement, Education and zero tolerance Enforcement.

Our Approach
The Council's Protective Services and Neighbourhood Services work with Police Scotland, our communities and key stakeholders to tackle environmental crime through engagement, education and zero tolerance enforcement.



To make broader behaviour changes, this strategy requires to be based on a solid foundation of robust enforcement, engagement and education, with an understanding of the environmental problems and the impact on the area. This requires to be conveyed through engagement with, and targeted communications to, our residents, schools, local groups and businesses.

Single Midlothian Plan

This Strategy contributes to the delivery of the strategic outcomes of the Single Midlothian Plan.

To improve the health and wellbeing for people living and working in Midlothian and safeguarding our communities, we recognise that protecting the environment and ensuring that places where we live and work are clean and safe is a preventative and sustainable objective.

We seek to enhance Midlothian's reputation by way of a cleaner and safer environment, which will, in turn, promote a positive image for inward investment and prospective residents.

Strategy Aims & Objectives

The strategy sets out its approach to tackling local environmental issues.

To meet this aim, the Strategy has the following objectives:

- Educate and raise awareness of effective waste management, fly-tipping, litter control, dog control and other local environmental quality issues to our residents and local businesses across Midlothian.
- Advise and assist businesses and members of the public to meet legal obligations.
- Undertake robust enforcement action in a proportionate, accountable, consistent, transparent, targeted and timely manner.
- Establish and implement novel and innovative service activities to improve compliance.
- Monitor and report performance.

Enforcement work can, and in some cases will, extend beyond public land onto adjacent, private land when necessary. We will engage with our regulatory partners, SEPA and private land owners accordingly.

What is classed as ‘Environmental Crime’?

The following are classed as Environmental Crimes and Midlothian Council has powers to tackle these:

Fly-tipping
Varies in size from a single mattress or black bin bag to large-scale truck loads of construction, demolition and excavation waste. Some illegal dumps, whilst small in size, can be serious particularly if hazardous waste is involved. Waste is classed as a fly-tip if it is too large to be removed by a normal hand sweeping barrow. In simple terms, a single full bin bag upwards would constitute a fly-tip. Similarly several carrier bags full of rubbish dumped together would also constitute a single fly-tip.

Fly-tipping in Midlothian varies from small amounts of domestic waste to commercial loads of fly-tipping such as tyres, business or construction waste.

Waste Duty of Care
Offences in relation to household and commercial waste duty of care.

Litter
Includes the offence of dropping litter as well as litter emanating from a business or littered private land which is open to the public, such as a retail park or train station. Litter can also emanate from a premises which is not containing refuse correctly.

Dog fouling
Offences whereby owners allow their dogs to foul in public open spaces without picking up and disposing properly. Enforcement activity in relation to dog control orders are dealt with separately.

Abandoned vehicles
Midlothian Council has a duty to deal with abandoned vehicles. Parking offences are dealt with separately.

Graffiti and fly-posting
Offences in relation to writing or drawings on a wall or surface, whether considered unauthorised art or discriminatory in nature; and the unauthorised display of any literature or promotional material.

All of the issues highlighted in this Strategy are of great importance to maintaining a clean and safe environment. We seek however to prioritise work on certain issues in order to approach enforcement work in a structured way, targeting the most prevalent issues affecting Midlothian’s environment. In particular, the current priority areas are:

- Fly-tipping on public and private land;
- Duty of Care with respect to commercial and household waste;
- Littering;
- Dog fouling.

Legislation

Environmental Protection Act 1990

Section 33, Prohibition on unauthorised or harmful deposit, treatment or disposal etc. of waste (Scotland)
Section 33A, Fixed Penalty Notices for contravention of section 33(1)(a) and (c): Scotland (inserted by section 55 of the Antisocial Behaviour etc. (Scotland) Act 2004)
Section 34, Duty of care etc. as respects waste
Section 46, Receptacles for household waste
Section 47, Receptacles for commercial or industrial waste
Section 59, powers to require removal of waste unlawfully deposited
Section 79 (1) (e) Statutory nuisances and inspections therfor
Section 87, the offence of leaving litter
Section 88, Fixed Penalty Notice for littering
Section 89, Duty to keep land and highways clear of litter etc
Section 90, Litter Control Areas
Section 91, Summary Proceedings by persons aggrieved by litter (Litter Abatement Order)
Section 92, Summary proceedings by litter authorities (Litter Abatement Notice)
Section 93 Street Litter Control Notices and 94 Street Litter: supplementary provisions
Section 94B, free distribution of printed matter (advertising materials)
Section 99, powers in relation to abandoned and luggage trolleys

Legislation which has amended the Environmental Protection Act 1990

Antisocial Behaviour etc. (Scotland) Act 2004
Waste (Scotland) Regulations 2012
Litter (Fixed Penalty Notices) (Scotland) Order 2014
The Controlled Waste (Fixed Penalty Notices) (Scotland) Order 2014
Regulatory Reform (Scotland) Act 2014

Other Relevant Legislation

Prevention of Damage by Pests Act 1949
Refuse Disposal (Amenity) Act 1978
Civic Government (Scotland) Act 1982
The Controlled Waste (Registration of Carriers and Seizure of Vehicles) Regulations 1991
Town and Country Planning (Scotland) Act 1997
Dog Fouling (Scotland) Act 2003
The Dog Fouling (Fixed Penalty) (Scotland) Order 2016
The Single Use Carrier Bags Charge (Scotland) Regulations 2014
Landfill Tax (Scotland) Act 2014

Fly-tipping & Duty of Care

Fly-tipping is a criminal offence. Fly-tipping is the illegal dumping of waste onto land that has no licence to accept it – from a bin bag of household rubbish to large quantities of tyres or construction waste. If a person is found guilty of the offence they can be issued with a fixed penalty notice or could potentially be sentenced to imprisonment and risk a fine of up to £40,000.

Fly-tipping is a nationwide problem with a range of causes. Some unscrupulous people make money from disposing of other people's waste in an apparently legal business venture, only to dump it illegally. Others seek to save on the cost of disposal for themselves. There are others who are simply lazy or who have the attitude that somebody else can clear up their waste. Then there are waste offences linked to serious organised crime.

Whatever the reasons, it impacts on the visual amenity of the area, attracts further crimes and costs Midlothian Council considerable expense and time to uplift and dispose of the fly-tipped materials. The Council's response costs to fly-tipping across Midlothian are circa £60,000 per annum (based on 3 year average).

With its rurality, Midlothian experiences incidents of fly-tipping on country roads, lay-bys, farm tracks and other similar locations, as well as in more urban areas.

Material fly-tipped on private land and moved to public land by the landowner is an offence by the person(s) who moved it.

Householder Duty of Care

Householders have a duty to ensure that only a registered waste carrier removes household, garden or construction waste from their property. They should also be able to provide documentary evidence (waste transfer note) upon request by an authorised officer. This is known as the householder Duty of Care.

The Council will continue to highlight the duty of care obligation, together with providing a mechanism to identify a local registered waste carrier. As a consequence, the Council will no longer accept ignorance of this legal duty.

Householders failing to comply with this duty will be issued with a Fixed Penalty Notice and/or prosecuted.

The Council provides a comprehensive waste collection service, together with Household Waste Recycling Centres, to enable residents and businesses to dispose of their waste safely and legally.

Business Duty of Care

Businesses are under a duty to ensure that their waste is stored, presented and disposed of in accordance with the waste Duty of Care.

This Duty states that businesses must take all reasonable steps to keep waste secure prior to disposal. Businesses must be sure that their waste is transferred to a company licensed by SEPA to take it and transport, recycle or dispose of it safely.

This transfer of waste must be officially recorded on a Waste Transfer Note. Businesses will receive a Waste Transfer Note from their authorised waste company and this record must be kept and stored by the business for two years.

Where businesses fail to comply with the Duty of Care, the Council will take firm enforcement action by issuing statutory notices, Fixed Penalty Notices and prosecution, where necessary.

Private Land response

With a number of incidences of fly-tipping that occurs in Midlothian occurring on ground which is in private ownership, Midlothian Council tackles this problem in collaboration with Midlothian Partnership against Rural Crime (MPARC), of which many of the estate owners are represented. MPARC work through promotions, initiatives and enforcement to reduce the amount of fly-tipping across the area.

Together with enforcement being the responsibility of SEPA, this strategy establishes that Midlothian Council will seek to have fly-tipping removed promptly from private land using advice and assistance in the first instance but through enforcement powers where there is a reluctance to remove fly-tipping or a recurrence of fly-tipping in the same area.

Where fly-tipping occurs on private land, Midlothian Council will assist the landowner with disposal routes. Landowners victim of fly-tipping can contact the Council to have the material assessed and may be permitted to transport the material to the recycling site at Stobhill, provided the booking protocol is followed. On a case by case basis, some material may be accepted free of charge but hazardous materials and tyres will be recharged at the full disposal cost.

Landowners will be subject to full costs should subsequent/repeat fly-tipping occur on land where deterrent or preventative measures have not been instigated.

Where circumstances require, Midlothian Council will use powers under the Environmental Protection Act 1990 to serve notice on land owners to require them to remove fly-tipped material and also to take necessary action to prevent fly-tipping in the same area. Failure to comply with these notices can result in fines of up to £5000 plus up to £500 for every day of non-compliance.

Enforcement and Penalties

Midlothian Council ensures that all enforcement is proportionate and transparent, with the following approach adopted:

Enforcement Procedure: Fly-tipping in Public Areas

1. All reported incidents of fly-tipped material will be investigated.
2. Where the Investigating Officer believes the incident could result in a possible conviction, the fly-tipped material will be examined in the presence of a witness for evidential purposes.
3. The evidence will be collected and controlled for evidential purposes.
4. Following an investigation, where the Council believes there is sufficient evidence, a Fixed Penalty Notice will be issued. Notices can only be served by authorised officers where they have reason to believe that an offence has been committed and only where sufficient evidence can be obtained.
5. Serious offences will result in a report being submitted to the Procurator Fiscal.
6. Where formal enforcement action is proposed, details of the fly-tipped material will be recorded prior to removal by Waste Services, together with the time taken for removal and costs involved in removal to enable recovery of costs through the courts where successful prosecution occurs.

7. In incidences where there is insufficient evidence, arrangements will be made to have the material removed as soon as practical by Waste Services.

Enforcement Procedure: Fly-tipping on Private Land.

1. All reported incidents of fly-tipped material will be investigated. Incidences involving larger volumes of fly-tipping will be referred to SEPA.
2. Where there exists sufficient evidence, a person who deposits or knowingly causes or knowingly permits controlled waste to be deposited in or on any land ie fly-tipped may be guilty of an offence and on summary conviction is liable to imprisonment for a period not exceeding six months or a fine up to £40,000 or both.
3. It is a defence for a person to demonstrate that he took all reasonable precautions and exercised all due diligence to avoid the commission of the offence.
4. Information and advice will be offered to landowners to prevent fly-tipping.

In all cases relating to a business, where successful prosecution or on payment of fixed penalty notice, perpetrators will be named.

Strategy Action Plan

Engagement	Education	Enforcement
Regular communication and updates to Community Councils, landowners and local businesses by Protective Services	*Your Waste, Your Responsibility, Your Midlothian.* Information and advice page on duty of care on website, complete with a list of local "trusted" operators for waste collection and disposal to reduce the supply of waste disposal work to unlicensed operators, thus reducing the amount of fly-tipped waste from this source.	Zero tolerance. Creation of Environmental Crime Team. Issue of statutory notices; Fixed Penalty Notices for small volumes of waste and where there is no history of similar offences and/or no aggravating circumstances; seizure of vehicles; and prosecution reports submitted to Procurator Fiscal in all other cases, where evidence permits.
Regular social media and local press publicity, highlighting the need to check waste collectors have a waste carrier's licence with SEPA	Promote reporting mechanisms through forums and social media and effective signage in identified locations.	Undertake overt and authorised covert surveillance operations, to enable us to act swiftly in relation to fly-tipping at identified hot-spots and on public land, roads and verges.
Undertake 'duty of care' inspections on businesses, including food businesses when carrying out food hygiene inspections. These duty of care inspections involve checks on correct waste disposal contracts are	Promote to business premises owners the need to check their tenants are using their premises for the purpose which they rented it for, especially large industrial premises or locations in secluded areas. This should	We will continue to work closely with partners in relation to the investigation of large scale fly-tipping and take enforcement action where evidence permits.

in place and they are sufficient for the purpose	prevent business premises landlords becoming the victims of crime themselves and reduce the chances of a premises being rented by organised waste criminals.	
Provide additional cost effective waste collection services, including re-use and upcycling, to increase the community offer to minimise opportunities for fly-tipping	Offer advice and assistance to landowners, including those who find themselves the victim of fly-tipping on their land, including how they might prevent the same from happening in the future	Publicity of all offenders following successful prosecution and issuance of statutory notices, Fixed Penalty Notice in relation to Duty of Care and Fly-Tipping.

Littering

Littering is a criminal offence. Throwing down or dropping an item in any public open space is classed as littering. If a person is found guilty of the offence they can be issued with a fixed penalty notice or could potentially be prosecuted and risk a fine of up to £2,500.

Litter is comprised mainly of materials often associated with eating, drinking and smoking.

The true extent of littering is masked by the routine statutory duties of Neighbourhood Services and the programme of street and public space cleansing operations, as detailed in the Code of Practice on Litter and Refuse (COPLAR).

Enforcement powers are available to not only tackle those littering, such as the use of a littering fixed penalty notice, but also to tackle the shops, takeaways and other premises whose customers may be prone to throwing away litter associated with purchases made. We will ensure that where the evidence shows problems are associated with specific premises, we will insist that those premises clear litter which originated from their premises in the vicinity.

Street Litter Control Notices

Midlothian Council may, to prevent the accumulations of litter or refuse in and around any street or open land adjacent to any street, issue street litter control notices imposing requirements on occupiers of premises in relation to litter or refuse.

For premises prescribed with a frontage on a street, the authority may serve a street litter control notice on the occupier, or on the owner of unoccupied premises, if they're satisfied that:

- There is recurrent defacement by litter or refuse of any land, being part of the street or open land adjacent to the street, which is near the premises
- The condition of any part of the premises which is open land near the frontage is and, if no notice is served, is likely to continue to be detrimental to the amenities of the locality by reason of the presence of litter or refuse
- There is produced, as a result of the activities carried out on the premises, quantities of litter or refuse of such nature and in such amounts as are likely to cause the defacement of any part of the street, which is in the vicinity of the premises

Notices will specify appropriate and reasonable requirements in relation to the area of open land which adjoins the vicinity of the frontage of the premises on the street – the 'specified area'. Notices can include clearing litter and providing or emptying litter bins. The owner cannot be required to clear litter or refuse from any carriageway unless it is closed to traffic.

If the litter authority believes that a person has failed or is failing to comply with any requirement imposed by a notice, they can apply to the Sheriff for an order requiring the person to comply with the requirement within such time as specified in the order. If a person fails to comply with an order, without reasonable excuse, they could be fined up to £2,500.

Types of land on which a street litter control notice may be served include land:

- Up to 10 metres from an automated teller machine
- Up to 100 metres away from various premises as described in The Street Litter Control Notices Order 1991, amended 1997. These include betting offices and shops, premises where lottery tickets are sold, premises where goods are displayed adjacent to or in front of the premises, and fast food premises.

The Council will seek to utilise this Notice where appropriate.

Litter Control Areas

Local Authorities can designate certain types of littered land to which the public have access as Litter Control Areas if they consider that the presence of litter or refuse on that land is detrimental to the amenities of the area and is likely to remain so.

This places a duty on each occupier of that land to ensure that the land they occupy is kept clear of litter and refuse, so far as is practicable.

Litter Control Areas are areas that are accessible to the public but privately owned. The types of land that can be designated as Litter Control Areas include car parks, retail parks, business parks and industrial estates.

The Council will seek to designate Litter Control Areas where appropriate.

Litter Abatement Notices

A Litter Abatement Notice will be issued by the Council when satisfied that the relevant land of a duty body, including land within a Litter Control Area, is defaced by litter or refuse or that defacement by litter or refuse is likely to recur. The notice will specify the time within which the litter must be cleared and/or prohibit further littering. The notice will be served on the occupier of the land or, if there is no occupier, on the owner.

If the person on whom a litter abatement notice is served, without reasonable excuse, fails to comply with the notice, they could be fined up to £2,500, further penalties may be imposed for each day on which the offence continues after the conviction.

If a person on whom a litter abatement notice is served fails to comply with the requirements imposed by the notice, the authority may:

- Enter the land and clear the litter or refuse
- Recover the expenditure attributable to their having done so

The Council will seek to utilise this Notice where appropriate.

Community Litter Action

Midlothian Council recognises the value of empowering communities to assist in litter clean ups and to raise awareness of litter and fly-tipping prevention to improve local environmental quality.

Clean ups are the most widespread of community efforts to tackle litter. Community clean ups bring people together to tackle litter and other environmental issues within their own neighbourhoods. But while they have many positive outcomes, there is growing recognition of the need for community interventions to put a firmer emphasis on tackling the problem at source by preventing litter being dropped in the first place.

The Council will support Community clean ups by providing advice, equipment and coordinate uplift of collected waste materials.

Strategy Action Plan

Engagement	Education	Enforcement
Create Neighbourhood Environment Team to holistically tackle local environmental issues, including littering and dog fouling	*Your Litter, Your Responsibility, Your Midlothian.* Information and advice page on website.	Zero tolerance. Creation of Environmental Crime Team. Issue of statutory notices; Fixed Penalty Notices; and prosecution reports submitted to Procurator Fiscal in all other cases, where evidence permits.
Creation of Neighbourhood Environment Improvement Group, as a forum for liaison and communication with Community Councils, landowners and local businesses; and to coordinate and facilitate community litter action	Promote reporting mechanisms through forums and social media and effective signage in identified locations.	Undertake prioritised patrols; and authorised covert and overt surveillance operations, including cameras capturing littering from vehicles, to enable swift action in relation to littering.
Provide additional bins at identified locations, to increase the availability to minimise opportunities for littering	Create environmental crime information packs for schools. School education visits.	Implement Policy for juvenile litter offenders.

Dog Fouling

Dog fouling on streets and in public parks is unsightly but also presents a danger, especially in areas where children are likely to be playing or adults are engaging in sports.

Failing to pick up after dogs is socially unacceptable and those committing this offence are in the extreme minority.

Midlothian Council has in place the Professional Dog Walkers' Registration Scheme and promotes the Green Dog Walker campaign to encourage responsible dog ownership.

Enforcement and Penalties

Where an authorised officer has reasonable grounds to suspect a person of committing a dog fouling offence, ie by failing to immediately remove and dispose of the fouling, a fixed penalty will be served. This penalty is £80 increasing to £100 if not paid within 28 days.

In addition, cases may be referred to the Procurator Fiscal. A person who is guilty of an offence under this section shall be liable on summary conviction to a fine not exceeding level 2 on the standard scale.

Strategy Action Plan

Engagement	Education	Enforcement
Create Neighbourhood Environment Team to holistically tackle local environmental issues, including littering and dog fouling.	*Your Dog, Your Responsibility, Your Midlothian.* Information and advice page on website.	Zero tolerance. Creation of Environmental Crime Team. Issue of Fixed Penalty Notices; and prosecution reports submitted to Procurator Fiscal in all other cases, where evidence permits.
Creation of Neighbourhood Environment Improvement Group, as a forum for liaison and communication with Community Councils.	Promote the Professional Dog Walkers' Registration Scheme and Green Dog Walker campaign; and reporting mechanisms through forums and social media and effective signage in public open spaces.	Undertake prioritised patrols; and authorised covert and overt surveillance operations, to enable swift action in relation to dog fouling.
Provide additional bins and disposal bags at identified locations, to increase the availability to minimise opportunities for failing to pick up after dogs.	Create environmental crime information packs for residents in hot spot areas; and schools. School education visits.	Implement Policy for juvenile litter offenders.

Abandoned Vehicles

Abandoned vehicles are unsightly and may be dangerous. They affect the neighbourhood environment and may attract vandals, increase the risk of crime and fire; and create a general nuisance in locations where parking is limited. Abandoning a vehicle is an offence.

The Police have the relevant legislative powers to remove a vehicle immediately where it breaches local traffic regulation orders or is causing an obstruction or danger.

Any vehicles that are abandoned within Midlothian become the responsibility of the Council. A vehicle is deemed abandoned where it meets the following criteria:

- the vehicle has no current vehicle keeper on DVLA record
- the vehicle has been stationary for a length of time
- the vehicle is significantly damaged or unroadworthy: eg flat tyres, wheels removed; broken windows
- the vehicle is burnt out
- the vehicle is lacking one or more of its number plates
- the vehicle contains waste

A search for the owner will be undertaken using the DVLA system on receipt of a notification of an abandoned vehicle. A notice will be attached to a vehicle where it meets the criteria and confirmed as abandoned. On expiry of the notice, the vehicle will be removed and disposed of.

Types of Notice:

- 24 hour notice – this is actioned if the vehicle is of little value, ie burnt or in such a condition that it will be scrapped, or is being vandalised (determined by the Officer attending)
- 7 day Notice – this is actioned if the vehicle is considered to have a monetary value (determined by the Officer attending)
- 15 day Notice – applies to abandoned vehicles on private land which is open and accessible to the public. The Council is not statutorily obliged to deal with abandoned vehicles on private land. An assessment will be made based on visual amenity impacts and safety concerns.

Costs in carrying out the abandoned vehicle procedure will be recovered by the Council, where evidence permits.

Untaxed vehicles or those declared as SORN on a public road are the responsibility of the DVLA.

Abandoned caravans and trailers are included within the definition of “vehicle” in the Refuse Disposal (Amenity) Act 1978. The above process will be followed but timescales may be extended. Trailers, caravans, horseboxes and similar, can also be considered under Section 59 of the Roads (Scotland) Act 1984. The Council, as Roads Authority, has powers to remove any item deemed to be causing an obstruction on the road. Failure to comply with a notice to remove is punishable on conviction by a maximum fine of £200.

A Contractor will be used to uplift abandoned vehicles, trailers, caravans, horseboxes and similar, store for a maximum 7 days in cases where the vehicle is of value, then destroy.

Any vehicle that is claimed will be released to the owner on payment that covers all associated costs.

Graffiti and Fly-Posting Strategy

Graffiti impacts the visual appearance of neighbourhoods. It can attract further vandalism and antisocial behaviour.

Removing graffiti can be expensive. The Council will work with the Police to identify the perpetrator, with the Police taking the relevant action.

Where graffiti occurs on Council property, it will be removed on a suitable timescale relative to the content. Threatening, sectarian, discriminatory or other offensive material will be removed as quickly as possible, within 48 hours. Other forms of graffiti will be actioned within 10 working days. Some heritage surfaces may require additional time to have the graffiti removed.

Private property owners are responsible for graffiti on their properties. The Council can assist in the removal of offensive graffiti on private property, for which a recovery cost can be levied.

Under Section 58 of the Antisocial Behaviour etc (Scotland) Act 2004, the Council can serve a graffiti removal notice on any responsible person where a relevant surface has been defaced by graffiti and the defacement is detrimental to the amenity of the locality or offensive. This applies to owners of street furniture, educational institutions and certain statutory transport undertakers. The notice prescribes a period of not less than 28 days for the graffiti to be removed. Where a person fails to comply with the notice, the Council may remove the graffiti from the property and recover costs.

Fly-posting is an illegal form of outdoor advertising, providing a cheap and instant message. It is often associated with graffiti. It has a negative impact on the quality of the environment.

The Town and Country Planning (Scotland) Act 1997 states that the person is deemed to be displaying an advertisement if they are:

- The owner or occupier of the land on which the advertisement is displayed; or
- The advertisement gives publicity to his goods, trade, business or other concerns.

An Advertisement Enforcement Notice will be served to secure the removal of an advertisement which required Express Advertisement Consent and which in the view of the Council would not obtain such consent. The displaying of an advertisement that requires such consent without that consent is an offence.

Power to remove or obliterate Placard and Posters (Section 187 of the Town and Country Planning (Scotland) Act 1997)

The Council will undertake speedy removal of fly-posting and utilise its powers to tackle the issue with the perpetrator using enforcement powers.

The Roads (Scotland) Act 1984 makes it an offence to place anything on the public road without the consent of the roads authority. It is an offence to paint, inscribe or fix upon the surface of a road or tree, traffic sign, milestone, structure or works a picture, letter, sign or other mark. The penalty, where an offence is proven, is up to level 3 of the standard scale.

General Amenity

Amenity Notices (Section 179 of the Town and Country Planning (Scotland) Act 1997)

An Amenity Notice will be served to address untidy land or buildings. If the notice is not complied with, the Council has the option to seek to enter the land and undertake the works itself and recover the cost of doing so.

Enforcement against unauthorised works to trees protected by a Tree Preservation Order or Trees located within a Conservation Area (Sections 168 and 174 of the Town and Country Planning (Scotland) Act 1997)

Wilful cutting down, damaging or destroying a tree protected by a Tree Preservation Order constitutes an offence. The Council can require the planting of a replacement tree and if there is a failure to do so enter land to undertake the works itself and recover the costs. Replacement planting of trees can also be required in relation to the unauthorised felling of trees in a Conservation Area

Monitoring and Review

To assess the effectiveness of this strategy in meeting its aims, several measures will be evaluated and reported quarterly to the Police and Fire and Rescue Board. This will highlight where measures have made an improvement and also provide further information on areas which may be failing.

Evaluation measures are:

- Numbers of environmental crime complaints to the Council.
- Numbers of graffiti and fly posting clean up requests.
- Numbers of enforcement actions, including statutory notices, fixed penalty notices and reports to the COPFS in relation to environmental crime.

Reviews will take place quarterly and where new powers are introduced or where significant changes are required to the strategy it will be brought back to the Council for approval.

Strategy Implementation Plan

Action	Timescale
Populate and update website	April 2022
Establish *Trusted Operator* scheme for local waste collection and disposal companies	April 2022
Procure additional redeployable CCTV units	April 2022
Establish Neighbourhood Environment Improvement Group	April 2022
Scope and implement cost effective waste collection services to increase the community offer to minimise opportunities for fly-tipping, eg: 1 ton bag waste collections Re-use facility at Stobhill, requiring engagement with charities and Third Sectror	April 2022
Establish contract for abandoned vehicle uplift, storage and disposal	April 2022
Establish Environmental Crime Team	May 2022
Implement Policy for juvenile litter offenders	May 2022
Create Neighbourhood Environment Team within Neighbourhood Services	June 2022

Council
February 2022
Item 8.7

Environmental Crime Enforcement: Service Delivery

Report by Kevin Anderson, Executive Director - Place

Report for Decision

1 Recommendations

Council is recommended to approve the pilot service delivery for 12 months of a dedicated Environmental Crime Team, utilising the current service provider for parking enforcement, to complement the implementation of the Environmental Crime Enforcement Strategy.

2 Purpose of Report

The purpose of this report is to provide Council with options and solution to implementing the Environmental Crime Enforcement Strategy, with the resource to undertake engagement, education and robust enforcement of environmental crime incidents, including fly-tipping, littering, dog fouling and other associated offences.

Date: 7 February 2022
Report Contact: Derek Oliver, Chief Officer - Place
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3 Background

3.1 Midlothian Council Labour Group tabled a Notice of Motion on 29th June 2021 with regards to working with local groups and individuals to improve open spaces; provision of public space bins; and environmental enforcement using private companies; and requested that a report be presented. A report was presented at August 2021 Council meeting, where Council approved Officers to develop a Midlothian Environmental Crime Strategy, led by Protective Services; and report to Council.

4 Environmental Enforcement

4.1 Currently, environmental offences are investigated and actioned by the Environmental Health Service. With the range of statutory functions and, most recently the Covid pandemic, to regulate and enforce, the priority of response is targeted towards the higher public health and safety risks.

4.2 The Environmental Health Service and Police Scotland's Midlothian Community Action Team have worked effectively together over the past year with regards to fly-tipping offences, with three individuals charged with associated offences. The reports have been submitted to the Procurator Fiscal.

4.3 With the stretch on resource within Environmental Health, an alternative model to pursue offenders for littering, dog fouling etc is required to robustly deal with perpetrators and serve as a deterrent. An approved Environmental Crime Enforcement Strategy provides the framework for all associated offences to be tackled and improve the visual amenity and environment of Midlothian.

5 Midlothian Environmental Crime Enforcement Strategy

5.1 The Strategy implements a visible enforcement service to tackle environmental crime.

6 Environmental Crime Enforcement Service Options

6.1 Options for the delivery of service are:

i) A newly created internal Environmental Crime Team, comprising a Team Leader and Enforcement Officers, embedded within the Protective Services staffing establishment.

ii) External Environmental Crime Team authorised by Midlothian Council, contracted on an agency basis.

iii) Parking Attendants service to be augmented with additional officers and authorised with relevant powers to tackle on street parking offences and/or environmental crimes.

6.2 Internal Environmental Crime Team: a team structure would be created through service review and fixed term jobs created and evaluated for the specific role of undertaking environmental crime enforcement. Midlothian Council would authorise members of staff with the relevant powers under environmental protection, and associated, legislation. This would require a team leader and 4 officers. Indicatively, this structure would equate to approximately £192,000 of staffing costs. Additional capital and revenue resource would be necessary for transport and operational devices, together with means to issue fixed penalty notices and administrative support. Non-staff costs have been estimated at £31,000. Additional back office support for fine payments would also be required, which would require specific software, requiring further analysis.

6.3 External Environmental Crime Team authorised by Midlothian Council, contracted on an agency basis: given the legislative limitations, external agencies are unable to be directly appointed by the authority to undertake environmental crime enforcement. Persons can be appointed by the authority on an agency/contractor basis. This would be charged at an hourly rate. Indicatively, a Team Leader and two enforcement officers, working 5 days from 7 (40 hours per week) would cost £187,200.

6.4 Additionality to the current Parking Attendants service contract: this comprises two options augmenting the existing 3.8 FTE Parking Attendants:

a) **a holistic team of 5.8 FTE Enforcement Officers who can enforce both parking and environmental offences.** Main points of this option would include:

- More coverage with less resource. i.e an increase of 2 staff members would enable a presence in each council ward focussed on both areas of enforcement.
- Cost effective from the point that there would be less down time if the area is quiet from one area of responsibility.
- A negative could potentially be a lack of focus on Environmental issues, especially at the beginning where compliance was being encouraged; and Officers could selectively decide to concentrate on offences which are less likely to lead to conflict.

Increasing the headcount by 2 members of staff as well as the associated equipment, would increase the annual fixed Charge of the existing contract to the council by approximately £55,000. Back office notice issuance support would be delivered at a cost of £2,500 and £5 per each Fixed Penalty Notice served.

b) **A dedicated Environmental Enforcement team of 4 FTE (in addition to the existing 3.8 FTE Parking Attendants).**

- This option consists of a team of staff fully focussed on enforcing environmental offences. This would be especially relevant at the commencement of the service.

Increasing the headcount by 4 members of staff as well as the associated equipment, would increase the annual fixed Charge of the existing contract to the council by approximately £85,191. Back office notice issuance support would be delivered at a cost of £2,500 and £5 per each Fixed Penalty Notice served.

The current front-line system used by the Parking Attendants has the functionality to produce Charge notices for environmental offences. This use of the system has been tried and tested in another local authority in England.

6.5 In all options, the Council would retain all income derived from Fixed Penalty Notices, which would offset costs. It is expected that income will decrease over time as engagement and education, together with deterrence, increases, and there is a positive behaviour change.

6.6 The below is an estimate provided by the current Parking Attendant provider on the potential Income and costs based on increasing the current headcount by 4 full time operatives.

	Contract Running Costs	Parking PCN Income	Parking Income	Environmental FPN Income	Total (Income Minus Cost)
Current	**180,179**	**183,500**	**48,500**	**N/A**	**51,821**
Projected	**285,370**	**183,500**	**48,500**	**105,000**	**51,630**

Please note the following:

- The above Parking Income is based on year 2019/20.
- Costs are estimated figures based on current run rates. There could potentially be other associated costs that are unseen at this time.
- Forecasted Environmental Crime FPN income is based on an estimated successful payment rate of 60%.
- Forecasted costs have been based on back office costs of £5 per FPN on an average issuance rate of 3500 FPN per annum and an initial start-up cost of £2,500.

7 Performance Reporting

7.1 With the significant partnership working with both Police Scotland and the Scottish Fire and Rescue Service, with regards to environmental crime, reporting performance regularly to the Police and Fire & Rescue Board would provide the necessary governance structure, robust process and scrutiny to the operations and management of this regulatory function going forward.

8 Report Implications

8.1 Resource

The assessment and options appraisal for the creation of a dedicated environmental crime enforcement resource is detailed within the report. The option of utilising the current parking attendant provider on a pilot basis will require additional revenue budget. However, this cost will be offset by the income generated by the issuance and payment of fixed penalty notices. There is a potential for Midlothian Council to fully cover costs, with a potential surplus for reinvestment into strategy actions. As behaviour changes within the communities, income is likely to fall.

6.2 Digital

Not applicable at this stage.

6.3 Risk

Additional resource is required to target environmental crime. This will have a reputational and financial implication on the Council for environmental crime. Utilising an external provider to undertake environmental crime enforcement will require considered construct owing to legislative provision and constraints applicable in Scotland.

6.4 Ensuring Equalities

Having a robust response to environmental crime and the ongoing partnership working with communities is vital to Midlothian's community safety. The subject of this report has a positive impact in the environment and as such does not affect the wellbeing of the community or have a significant detrimental impact on equality, the environment or economy.

6.5 Additional Report Implications

See Appendix A

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan
The route map outlines the phases of service recovery and transformation which will underpin the Single Midlothian Plan.

A.2 Key Drivers for Change
Key drivers addressed in this report:

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

A.3 Key Delivery Streams
Key delivery streams addressed in this report:

- [x] One Council Working with you, for you
- [x] Preventative and Sustainable
- [x] Efficient and Modern
- [x] Innovative and Ambitious
- [ ] None of the above

A.4 Delivering Best Value
The report aims to deliver best value.

A.5 Involving Communities and Other Stakeholders
Consultation with communities, local groups, Police Scotland and SFRS will be imperative.

A.6 Impact on Performance and Outcomes

The report aims to measure progress through outcomes.

A.7 Adopting a Preventative Approach
The report is based on the creation of a wellbeing economy which prioritises prevention, fairness for people, the economy and the environment.

A.8 Supporting Sustainable Development
The improvement and enhancement of our environment.

Her Majesty The Queen's Platinum Jubilee in 2022

Report by Kevin Anderson, Executive Director - Place

Report for Decision

1 Recommendations

Council is recommended to consider any level of engagement and participation to celebrate Her Majesty The Queen's Platinum Jubilee.

2 Purpose of Report/Executive Summary

The UK will celebrate Her Majesty The Queen's 70th anniversary as monarch, in June 2022, which is the first time any British monarch has reached this historic milestone. The commemorations are being arranged jointly with The Royal Household and the UK Government's Department for Digital, Culture, Media and Sport.

Council has previously approved an additional day as a public holiday in order to match the change by the UK Government which introduced an additional Bank Holiday on Friday 3 June 2022 and sees the existing UK May Bank Holiday Weekend in 2022, moved to Thursday 2 June, so providing a four day weekend.

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3 Background

The UK will celebrate Her Majesty The Queen's 70th anniversary as monarch with a planned weekend of celebrations. This historic event will reflect on Her Majesty's reign, and her impact on the UK and the world since 1952.

The four day celebrations will feature an extensive programme of events that mix the best of British ceremonial splendour and pageantry with cutting edge artistic and technological displays. These will be interspersed with the traditional nationwide fanfare and celebrations.

Further details on all aspects of programming, including events and how the public can get involved will be released in the months ahead with current opportunities and events listed in the appended letter received from the UK Government's Department for Digital, Culture, Media and Sport.to permit Council to consider any level of engagement and participation to celebrate Her Majesty The Queen's Platinum Jubilee.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

There is no allocated Council provision for resource or costs incurred. Alternative public or private funding sources may be considered and National Lottery Funding is being made available.

As an indicative project for the Queen's Green Canopy; a tree planting and education scheme in schools to mark the anniversary in our main town parks has been scoped for Bonnyrigg, Dalkeith, Gorebridge, Mayfield, Newtongrange and Penicuik.

The estimated cost of each tree including a metal guard and a plaque at the above settlements will be approximately £450.00, totalling £2,700.

4.2 Digital

There are no digital implications related to this report.

4.3 Risk

There are no risk implications related to this report

4.4 Ensuring Equalities

No equalities implications are anticipated but an EQIA assessment still has to be completed and considered.

4.5 Additional Report Implications

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Modern
- ☐ Sustainable
- ☐ Transformational
- ☐ Preventative
- ☐ Asset-based
- ☐ Continuous Improvement

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

There are no direct implications related to this report.

A.5 Involving Communities and Other Stakeholders

Any proposed events would be reviewed by the Council's Safety Advisory Group to provide advice and assistance including road traffic and licensing considerations.

A.6 Impact on Performance and Outcomes

Not applicable

A.7 Adopting a Preventative Approach

Not applicable

A.8 Supporting Sustainable Development

Not applicable

APPENDIX 1

Letter from the UK Government Department for Levelling Up, Housing & Communities.

Department for Levelling Up, Housing & Communities

Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and Communities
Minister for Intergovernmental Relations

Department for Levelling Up, Housing and Communities
4th Floor, Fry Building
2 Marsham Street
London SW1P 4DF

To: All local authorities in the United Kingdom

6 January 2022

HER MAJESTY THE QUEEN'S PLATINUM JUBILEE

In 2022, Her Majesty The Queen will become the first British Monarch to celebrate a Platinum Jubilee. To mark The Queen's historic 70-year reign, 2022 will see Platinum Jubilee celebrations throughout the UK and the Commonwealth as part of a year-long programme of events.

We want celebrations to be even bigger and better than previous national celebrations and for as many people as possible across the nation to participate, at any point from January to December 2022. You'll be aware that an announcement was made to extend the bank holiday weekend from Thursday 2 to Sunday 5 June 2022 to provide opportunities for communities throughout the UK to come together to celebrate this historic milestone.

We know that you and partnering organisations you work with understand your communities best and will support them to participate in celebrations. We also know you will want to make sure that this momentous occasion is marked fittingly, and many of you have already started planning exciting programmes of events for your local areas. To support your preparations, we wanted to highlight some of the opportunities for councils and your communities to engage with the Platinum Jubilee which are listed below:

- **Street Parties and 'The Big Jubilee Lunch'**
  - Street parties should be encouraged, and you can play an important role in supporting residents who want to organise parties for their neighbours. For example, relaxing road closure rules to enable street parties to take place as easily as possible will be important. Updated street parties' guidance on how to organise a street party can be found here.

- **The Big Jubilee Lunch – 2 to 5 June 2022**
  - The Big Jubilee Lunch encourages communities to come together, celebrate their connections and get to know each other a little bit better and will bring the Jubilee celebrations into the heart of every community. More details can be found here.

- **Beacon Lighting**
  - In keeping with the long tradition of celebrating Royal Jubilees, Weddings and Coronations, councils are encouraged to light beacons across the UK in the evening of 2 June 2022. Should you wish to take part, more information can be found in the specific Beacons website which can be found here.

- **Platinum Jubilee Events/projects organised by Local Authority-owned civic amenities**
  - Libraries, museums, leisure centres, heritage sites etc are welcome to host their own individual events and projects to mark the Platinum Jubilee. For example, this could include exhibitions, concerts or special talks.

- **National Lottery Funding**
    - More than £22 million of National Lottery funding is being made available to help communities across the country come together to celebrate the Platinum Jubilee. More information on the different funds available can be found here.

- **The Platinum Jubilee Emblem**
    - The official Platinum Jubilee Emblem is available for use for all activities associated with the Platinum Jubilee celebrations, including community and national events. It is free to download from the Royal website, where detailed usage guidance can also be found.

- **The Queen's Green Canopy**
    - Everyone from individuals to community groups, villages, cities, counties, schools and corporations are encouraged to plant a tree for the Jubilee. The initiative runs from October 2021, when the tree planting season began, through to the end of the Jubilee year in 2022. More details can be found here.

- **City Status Competition**
    - The Civic Honours competition launched on 8 June. These rare awards will grant winning towns and cities 'city status' and 'Lord Mayor or Provost status'. More details can be found here.

- **Council led events**
    - Councils are welcome to organise and facilitate large scale Platinum Jubilee events and celebrations of their own choosing within their towns and cities, which could include their own civic occasion, for example, "The Mayor's Jubilee Party".

- **Local pageants**
    - Further guidance on how to host a local pageant will be available early in 2022.

- **Broadcast the TV feed.**
    - The use of local large screens in public places to show TV coverage of the Jubilee, which could include The Platinum Party at the Palace. These screenings could be complemented or enhanced by being a part of a wider event.

The Department for Digital, Culture, Media and Sport (DCMS) have launched a Platinum Jubilee website which includes useful related resources. The website includes an interactive map, for people and organisations to contribute to and others to search for information on activities taking place near to them. Please explore the website and submit events and activities to be included on the map, which can be found here.

We look forward to seeing the exciting and creative ways in which you and your communities choose to mark the Queen's Platinum Jubilee.

With every good wish,

Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and Communities
and Minister for Intergovernmental Relations

Small Grants and Community Council Grants 2022-2023

Report by Joan Tranent, Chief Officer Children's Services, Communities and Partnerships

Report for Decision

1 Recommendations

Council is recommended to:

- Approve the allocation of small grants detailed in *Appendix 1* for 35 organisations totalling £89,000.
- Approve the allocation of £9,545 for community council grants detailed in *Appendix 2.*

2 Purpose of Report/Executive Summary

The Council's small grants scheme is available to voluntary and community organisations on an annual basis to deliver services across four funding streams to meet the priorities and outcomes of the Community Planning Partnership and the Single Midlothian Plan. The themes are reducing carbon emissions and reducing inequalities in health, learning and economic circumstances.

Grants to Community Councils are open on an annual basis to assist them with general running costs and to deliver new projects.

This report asks Council to approve the recommendations of the scoring panels for the period 2022 to 2023.

21 January 2022

Report Contact: Karen McGowan 07990 136821
karen.mcgowan@midlothian.gov.uk

3 Background/Main Body of Report

3.1 In September 2020, Council approved the funding available to voluntary and community groups for large, small grants and Community Councils for a three year period from 2022 to 2025. The allocation to small grants is £89,000 a year for 3 years, a total of £267,000. The allocation to Community Councils Is £10,000 a year for 3 years, a total of £30,000.

3.2 There are four grant streams in the small grants scheme which align with the priorities of the Single Midlothian Plan for small grants: reducing carbon emissions (a new stream), reducing inequalities in health, learning and economic circumstances. Organisations can apply for a maximum of £3,000 per annum.

3.3 Community Councils and the Federation of Community Councils can apply for up to £300 annually as a contribution towards general running costs. They can also apply for additional funding to support new or existing projects.

3.4 Clear guidance was issued with the application forms detailing the information required under each section. Offers of advice and support were made to anyone considering making an application from Communities, Lifelong Learning and Employability (CLLE) staff and Midlothian Voluntary Action (MVA).

3.5 A core group of council officers from CLLE facilitated and recorded the sessions but did not score applications. A cross-party group of elected members were involved in scoring all streams and were supplemented by other council officers and representatives from health with specific remits and expertise, members of the Third Sector Interface (TSI) and volunteer community members.

3.6 Panel members were asked to declare if they had a vested interest or potential conflict of interest in advance of the panels. Those who declared this were asked to leave whilst the application was scored.

3.7 Due diligence was carried out by the Panel to ensure that there was no duplication of funding for organisations who had applied across large and small grant schemes; that no organisation received more than £33,500 per annum across all funding streams; and that there was a spread of awards across small, local community organisations and larger organisations.

3.8 All assessments followed clear scoring criteria and were scored out of 35.

3.9 Unsuccessful applicants can ask for detailed feedback on their application on request.

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

4.1 Resource

The recommended awards for small grants and community council grants are included in *Appendices 1* and 2 of this report. A total of 53 applications were received for small grants totalling £137,140 from a budget of £89,000.
A total of 14 applications were received for Community Council grants totalling £9,545 from a budget of £10,000.

4.2 Digital

A web based form was used to ensure that it was simple to complete online and support was provided.

4.3 Risk

The existing grants programme has been risk assessed and these risks are included in the Council's Risk Register. The programme is subject to internal audit that helps reduce the risks associated with managing the programme. The processes associated with awarding grants includes robust risk assessment procedures to ensure compliance with Following the Public Pound guidance.

Grants are paid in advance on 1st April 2022. An end of year report including evidence of financial spend is required at the end of the grant period. Further grant offers will not be considered until this is assessed and the organisation has demonstrated the difference the grant has made.

The closing date for small grants was extended to 5 January 2022 to allow organisations that were not successful with their large grant application to apply.

The amount of funding available and the amount of applications received represents a potential risk to the funding of the voluntary sector who contribute to meeting the outcomes of the Single Midlothian Plan as not all projects can be funded. MVA and CLLE staff are available to offer continued support with accessing alternative funds.

4.4 Ensuring Equalities

The integrated impact assessment concluded that the grant programme will have a positive impact on equality groups across Midlothian. The scoring criteria specifically references the impact on protected characteristics groups, how the organisation will promote equalities and the targeting of the 3 geographic priority areas of Dalkeith/Woodburn, Gorebridge and Mayfield/Easthouses.

4.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A - Additional Report Implications - none
Appendix B - Background Information/Links

- **Appendix 1 - Recommended list of awards for Small Grants**
- **Appendix 2 – Recommended list of awards for Community Councils**

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

The grant streams are aligned to the four outcomes of the Community Planning Partnership and Single Midlothian Plan. Applications were assessed on how they met each of the outcomes of the plan and the differences they would make.

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 grants programme will help maintain a vibrant voluntary sector in Midlothian. With challenges to statutory funding, the voluntary sector has a key role to play in developing communities, reducing inequalities and supporting sustainable development and contributing to meeting the outcomes of the Single Midlothian Plan. Scoring all applications against key criteria has ensured that Best Value was a key part of the assessment process. One of the questions assessed focused on whether the project was good value for money and demonstrated realistic costs.

A.5 Involving Communities and Other Stakeholders

The application forms and criteria were co-produced with the voluntary sector and designed based on feedback from previous and potential applicants about the process and information available. Scoring panels included a wide range of council officers, representatives from health, cross-party elected members, community and voluntary sector representatives. Both CLLE staff and MVA staff offered support to organisations making applications.

A.6 Impact on Performance and Outcomes

By supporting the voluntary sector the grants recommendations will have a positive impact on the performance and outcomes of the Council and the Community Planning Partnership and contribute towards meeting the four key priorities.

A.7 Adopting a Preventative Approach

The successful organisations will continue to support the voluntary sector to undertake preventative work by reducing inequalities, carbon emissions, social isolation and the impact of poverty, improving mental and physical health and wellbeing, developing communities and supporting people into learning and employment. Without this valuable contribution, many of these services would not be delivered in Midlothian.

A.8 Supporting Sustainable Development

Reducing carbon emissions was a new stream introduced into the grants programme for 2022 to 2025. There were only a small number of applications to this funding stream and some did not demonstrate clearly the difference they would make to reducing carbon emissions, raising awareness of climate change issues or developing local initiatives to reduce carbon emissions. The criteria for this stream will be reviewed and refined in the light of this for the next grants programme.

Supporting the voluntary sector through the grants programme will ensure that they play a key role in supporting sustainable development.

APPENDIX B
Background Papers/Resource Links (if applicable)

Appendix 1 – Recommended list of Small Grant Awards 2022-23

ORGANISATION	FUNDING FOR	REQUESTED (£)	AWARDED (£)
Bonnyrigg Rose Football Club	Football camp for targeted young people and support for Mum's Walk Group supporting positive mental	3,000	2,750
Anam Cara	Support for the development of the befriending service and training volunteers	2,640	2,640
Lasswade High School PHAB Club	Contribution to running costs – club provides social opportunities for Midlothian vulnerable adults	500	500
Penicuik Athletic Youth Football Club	Container and goals to support the growth of the club	3,000	3,000
Mayfield and Easthouses Youth 2000 Project	Weekly healthy living group for young people	2,627	2,627
Kidz United	Contribution to running costs for Peer Support Group for Midlothian families of children with disabilities	3,000	3,000
Carrington Village Hall Association	Contribution to running costs – providing opportunities to reduce social isolation in a rural area	2,000	2,000
Roslin Men's Shed	Contribution to running and advertising costs to develop the shed which reduces social isolation for older members of the community	2,000	2,000
Bill Russell Woodburn Youth Project	Staffing costs to support the continuation of a poverty project with young people	3,000	3,000
Touchdown UK	3 month trial of weekly American Football	3,000	3,000

	sessions for P5 – S1's in the Gorebridge area		
Beeslack All Stars Disabled Sports Club	Contribution to sessions for children and young people with additional supports needs and their siblings, to access grassroots sports and provide a sports specific pathway as well as personal development	3,000	3,000
Newtongrange Development Trust	Contribution to employ a part time volunteer development worker who will recruit, support and coordinate volunteers from the community	3,000	3,000
Dalkeith Thistle Community Football Club	Contribution to Football Development Officers salary and coach education pathway training to assist with the growth and sustainability of the club	3,000	3,000
Team United	Contribution to running costs associated with the delivery of weekly sport and physical activity sessions and to support outreach project work for young people with additional support needs	3,000	3,000
Growing Families	Support for Midlothian breastfeeding peer support network	3,000	3,000
Newbattle Beekeepers Association	To install a Defibrillator at the Teaching Apiary in the grounds of Newbattle Abbey which will be used by all groups accessing the grounds	2,679	2,679
Rosewell Development Trust Community Company Ltd	Contribution to the running costs of the lunch club that supports elderly, disabled and isolated senior residents of Rosewell	2,848	2,848
TOTAL HEALTH OUTCOMES		£45,294	£45,044
Food Facts Friends Project	Contribution to start-up costs for new pantry	3,000	3,000
MAEDT	Contribution to stock for pantry	3,000	3,000
Midlothian Foodbank	Contribution to rent/let	3,000	3,000

Penicuik CAB	Bus day tickets for vulnerable individuals and/or those on low income in crisis to access services or undertake day to day tasks	2,550	2,550
Play Midlothian	Contribution towards Stay for Play service – a free, weekly, supported play session for children aged 0-4, with their parent(s)/carergiver(s) in Mayfield	3,000	3,000
TOTAL ECONOMIC CIRCUMSTANCES		£14,550	£14,550
Dalkeith History Society and Museum	Contribution to running costs of the museum and a promotional video to help with publicity	2,988	2,988
St David's Brass Band SCIO	Contribution to the running costs to make facility more accessible	3,000	3,000
Lasswade High School PHAB Club	Contribution to cooking and craft sessions for Midlothian vulnerable adults	1,300	1,300
2466 (Loanhead) Squadron Air Training Corps	IT equipment to support assistive technology and upgrade to internet access	3,000	3,000
1st A Loanhead Brownies	Contribution to the delivery of the new programme - Know myself, Express Myself, Be Well, Have Adventures, Take Action and Skills for my future	3,000	1,109
Pathhead SWI	Contribution to hall rental to allow the group to meet and reduce social isolation in a rural area	249	249
Penicuik Community Arts Association	Contribution to singing workshops that will focus on fun, familiarity and confidence building whilst enhancing mental and physical health	2,990	1,191
Volunteer Midlothian	Creation of a ‘gadget group’ where people can create their own mini electronics projects and mentor less experienced	2,342	2,342

	participants		
Midlothian Community Media Association	Contribution to the running costs of Black Diamond radio	3,000	3,000
Esk Valley Trust	Training and equipment to support a citizen science project on River Esk	3,000	3,000
Play Midlothian	Early years group play project that will enable disabled children aged 0-4 and their families to meet, learn and play together	2,307	2,307
TOTAL LEARNING OUTCOMES		£27,176	£23,486
PlayBase scio	Resource boxes to support and promote learning for sustainability which will be borrowed by Early Learning and Childcare settings in Midlothian	3,000	3,000
Gorebridge Community Development Trust	Funding to continue Growgetters - monthly child and family growing sessions focusing on growing your own food, connection to nature and the outdoors, and gardening for wildlife	2,920	2,920
TOTAL CARBON EMISSIONS		£5,920	£5,920

Appendix 2 – Recommended list of Community Council Grant Awards 2022-23

ORGANISATION	REQUESTED (£)	AWARDED (£)
Mayfield and Easthouses Community Council	300	300
Tynewater Community Council	300	300
Danderhall and District Community Council	300	300
Loanhead and District Community Council	300	300
Moorfoot Community Council	400	400
Damhead and District Community Council (running costs & environmental project costs)	1,395	1,395
Midlothian Federation of Community Councils (noticeboards and workshops)	1,200	1,200
Midlothian Federation of Community Councils	300	300
Dalkeith and District Community Council	300	300
Rosewell & District Community Council (running costs and contribution to community calendar)	700	700
Roslin & Bilston Community Council	300	300
Eskbank &Newbattle Community Council	300	300
Tynewater Community Council (community networking event)	340	340
Roslin and Bilston Community Council (information noticeboard)	2,110	2,110
TOTAL COMMUNITY COUNCIL GRANTS	£9,545	£9,545

Update on Penicuik TH/CARS Project (2018-2023)

Report by Chief Officer - Place

Report for Noting

1 Recommendations

1.1 Council is asked to note for information the outcomes and achievements to date of the five year Penicuik Heritage Regeneration Project (2018-2023) being undertaken by the Council and its partners.

2 Purpose of Report/Executive Summary

2.1 This report, in the below order, updates Council on the work completed and expected through the Penicuik Heritage Regeneration Project:

- Background to the Penicuik TH/CARS project (paragraphs 3.1-3.7);
- Delivery of Building Enhancement and Restoration Projects (paragraphs 3.8-3.18);
- Building Enhancement and Restoration Projects in the Pipeline (paragraphs 3.19-3.21); and
- Delivery of Training and Education Programmes (paragraphs 3.22-3.24).

2.2 Appendix B contains a plan showing the boundary of the Penicuik TH/CARS project area and identified projects for taking forward through the scheme

27 January 2022

Report Contact:

Grant Ballantine, Lead Officer Conservation and Environment, Planning, Sustainable Growth - grant.ballantine@midlothian.gov.uk

3 Background/Main Body of Report

Background to the Penicuik TH/CARS Project

3.1 The Penicuik TH/CARS project follows on from the very successful, similar heritage based, Council run 2008-2013 Dalkeith THI/CARS (Townscape Heritage Initiative/Conservation Area Regeneration Scheme) and 2013-2018 Gorebridge CARS projects.

3.2 At its meeting of 30 August 2016 Cabinet approved the simultaneous submission of applications to the National Lottery Heritage Fund (NLHF) for a Townscape Heritage (TH) grant and to Historic Environment Scotland (HES) for a Conservation Area Regeneration Scheme (CARS) grant towards a heritage regeneration project for Penicuik. This scheme is called the Penicuik Heritage Regeneration Project but is often referred to as the Penicuik TH/CARS project. Grants were awarded towards the project; £1,692,000 from the NLHF in July 2018 and £980,000 from HES in August 2018.

3.3 The aim of the Penicuik Heritage Regeneration Project is to regenerate the historic core of Penicuik town centre by:

- Providing grant aid to repair and restore key historic buildings in the centre of the Penicuik Conservation Area. Building owners are required to provide a level of funding for improvement projects to their buildings in order to claim grant funding from the project;
- Providing grant aid to improve the public realm in the High Street, the top end of Bridge Street and The Square.
- Developing a training plan to encourage contractors, owners of historic buildings, schools and others to understand and appreciate the methods and techniques of traditional building construction, and
- Developing wide-ranging community engagement activities to enable local people, organisations and schools to actively get involved in history and heritage projects and thereby gain a greater understanding of Penicuik’s unique heritage.

Penicuik TH/CARS Project Team

3.4 The five-year 2018-2023 Penicuik TH/CARS project is led by Midlothian Council. However, it is a collaboration between the Council, Penicuik Community Development Trust, Penicuik Community Alliance Storehouse Ltd, Penicuik and district Community Council, and Penicuik First (BIDs), when they were operational. These bodies form the Project Team which assesses and decides on grant applications for individual projects. The priority projects and parameters for approving grant applications were agreed with the National Lottery Heritage Fund and Historic Environment Scotland.

3.5 The project has been providing grant funding to support the restoration of key buildings in the project area in Penicuik’s historic town centre. It has also been providing training and skills development for traditional building skills and for initiatives to promote the understanding of the heritage and history of Penicuik.

3.6 Covid 19 and the economic conditions in 2018 and 2019 initially significantly reduced the uptake of grants for the repair and restoration of buildings. Covid 19 has also altered the type, and amount, of training and development of traditional building skills that have been undertaken. The project has been working innovatively where it can to deliver output online.

3.7 The past two years have also witnessed a very significant increase in the cost of labour and materials, and a shortage of labour and materials. This has greatly affected the scope and speed at which projects have been able to come forward and be delivered. Despite this, the following parts of this report set out what has been delivered. Momentum in taking up grants, and interest in getting grants, has significantly picked up since late summer 2021.

Delivery of Building Enhancement and Restoration Projects

3.8 Tables 1-4 below set out the status of building restoration projects in the Penicuik TH/CARS project. Namely:

- five projects are completed, including the Town Hall, Pilkington Buildings and Pen-y-Coe press building;
- five projects have received a HES/NLHF grant and/or are on site; and
- eight projects are in the pipeline/expected to come forward.

3.9 Table 1 shows that through the Penicuik TH/CARS project there has been completion and grant approval towards a total of £2,291,467 of construction projects, and that HES and NLHF grants of £1,045,849 have been secured towards meeting these construction costs. Table 1 also highlights that an additional eight projects, totalling an approximate construction value of £1,547,868, are still expected to come forward through the project and that £835,488 of grant funding would be expected from HES and NLHF to help meet that £1,547,868 cost. Tables 2-4 provide more details on which individual projects make up the content of table 1.

3.10 Without the Penicuik TH/CARS project it is very doubtful, if any at all, of these projects would have come forward in the short to medium term. In this respect alone the project has been successful. The project is also now taking forward shop improvements in the project area, namely nos. 25, 27 and 28 The Square. Thereby further improving the attractiveness of the shops and buildings as places to visit.

3.11 In addition to this the Penicuik TH/CARS project has already in 2018 and 2019 invested £792,958 in public realm works in the historic core of Penicuik town centre. Further details of this are provided in paragraph 3.18 of this report.

Table 1: Penicuik TH/CARS - Summary of Construction Projects – High and Medium priority Projects

(Showing projects completed, received a grant or expected to come forward)

Project Status	Total project construction value	HES/NLHF grant contribution
-Completed Projects (5 nos.) -Projects in Receipt of a HES/NLHF grant and/or are on site (5 nos.)	£2,291,467 (includes approximately £350,000 of non-grant eligible work undertaken at Penicuik Town Hall - Table 2)	£1,045,849
Projects in the pipeline/expected to come forward (8 nos.)	£1,547,868 (estimate)	£835,488
Total	**£3,839,335**	**£1,881,337**

3.12 Tables 2-4 provide more details on which individual projects make up the content of table 1.

Table 2: Live/Complete High Priority Projects - Current Status

Property	Total Project Cost (for all projects)	Grant from HES and NLHF (total)	Project Status
*33 High Street (Town Hall)	**£1,663,005**	**£826,913**	Complete
22 High Street (The Storehouse)			Started but not on site (Grant approved)
2-3 The Square			Grant approved
1, 5, 7, 9 Bridge Street (Pen-y-Coe Press) 5 owners			Complete
Pilkington Buildings, Bridge Street - 9 owners			Complete
	£1,663,005*	**£826,913**	

*This figure excludes approximately £350,000 of spend on the Penicuik Town Hall project (33 High Street) that was not grant eligible.

Table 3: Live/Complete Medium Priority Projects and Small Grants - Current Status

<table>
<tr><th>Property</th><th>Total Project Cost (for all projects)</th><th>Grant from HES and NLHF (total)</th><th>Project Status</th></tr>
<tr><td>10 The Square</td><td rowspan="5">£278,46</td><td rowspan="5">£218,936</td><td>Complete</td></tr>
<tr><td>4-6A Bridge Street</td><td>Complete</td></tr>
<tr><td>28-30 High Street</td><td>On site</td></tr>
<tr><td>2 John Street</td><td>On site</td></tr>
<tr><td>4-6 John Street</td><td>On site</td></tr>
<tr><td></td><td>£278,462</td><td>£218,936</td><td></td></tr>
</table>

Penicuik Town Hall

3.13 The Penicuik TH/CARS project's scope of works for the Penicuik Town Hall project has been completed. The final spend of the project has not yet been calculated. The work on the building was delivered due to the Penicuik TH/CARS project. The project:

- replaced the building's boiler system;
- installed solar photo voltaic panels on the roof of the building;
- installed publicly accessible Wifi in the building; and
- undertook extensive stone and roof refurbishments.

3.14 This project was a priority of the Penicuik TH/CARS project. The project was awarded £601,180 of funding from the Scottish Government (TCCF). Of that total, £35,411 was used as match funding to access further grant funding of £106,233 from the National Lottery Heritage Fund and Historic Environment Scotland. The total budget for the project was £707,413.

Penicuik Town Hall - Funding Sources	**Funds Provided**
Scottish Government - TCCF	601,180
National Lottery Heritage Fund	70,822
Historic Environment Scotland	35,411
Total	£707,413

3.15 The Town Hall project undertook work on a building which the Council maintains. All of the works are saving the Council money in the long term as they would have been required eventually. In all likelihood the costs would have been higher the longer the work was left undone. The project's consulting engineers highlighted that the building's two boilers were past their lifespan and that one of them was broken and no longer in use. As set out, the project has secured £707,413 of external funds for this work.

3.16 The Penicuik TH/CARS project considers the Town Hall an ideal location to potentially help foster touch-down working for Council and other staff in the centre of one of Midlothian's largest towns. The building pre Covid was already very well used and cherished by the local community. Publicly accessible Wifi has been installed in the Town Hall through this project. As a meeting-up/touch-down space, the Town Hall is well placed to help support local businesses through maintaining and increasing staff and visitor spend in the local economy.

3.17 With the assistance of additional TCCF grant funding from the Scottish Government, the Penicuik TH/CARS project undertook much greater enhancement work on the Town Hall than had originally been anticipated.

Public realm works undertaken in 2018/2019 at Penicuik High Street/Bridge Street

3.18 The Penicuik TH/CARS project has also already involved undertaking significant public realm improvements in the historic core of Penicuik town centre. In total £792,958 was spent on public realm improvements between autumn 2018 and spring 2019. This included road resurfacing and new yorkstone paving on Penicuik High Street outside the Town Hall and parts of the northern end of Bridge Street. The pavements were widened on the southern side of the High Street to make the area more attractive and a user friendly environment for pedestrians and visitors. This work was funded through developer contributions, grant funding from the National Lottery Heritage Fund, Historic Environment Scotland and Midlothian Council's Road's Capital Budget.

Building Enhancement and Restoration Projects in the Pipeline

3.19 This report has referred to delays to up take of project grants due to the 2018 and 2019 economic climate and of Covid. However, as also stated since late summer there has been very significant interest and take up of grants for building restoration and shop front improvements.

3.20 In this take up of building grants, of particular note are two large scale projects coming forward at nos. 2-3 and 4 The Square. Nos. 2-3 The Square is the old grain warehouse with attached red corrugated iron and no. 4 is the now mostly demolished building facing on Bridge Street. These are key buildings for the project to improve this part of the town centre and visually improve the arrival and departure points of the town centre.

3.21 Table 4 highlights eight building restoration projects in currently in the pipeline. It shows that the total construction value is an estimated approximate £1,547,868 and of that £835,488 would be funded by grants from the NLHF and HES. They exclude shopfront improvement grants, including those at 25, 27 and 28 The Square. These will make a significant improvement to the town centre and quality of the built environment.

Table 4: Project Schemes in the pipeline/expected to come forward

Properties	**Total Project Cost (for all projects)**	**Expected Grant from HES and NLHF (total)**
4 The Square 19-20 The Square (Grant approved) 25-28 The Square (has planning permission and at tender stage, not at grant award stage) 2-4 West Street (Belgian Consulate building – tenders to be issued early 2022) 2-4 High Street (has planning permission and at tender stage, not at grant award stage) 14-16 High Street (has planning permission and at tender stage, not at grant award stage) 18-20 High Street 26 High Street	**£1,547,868**	**£835,488**
	£1,547,868	**£835,488**

Delivery of Training and Education Programmes

3.22 Providing training and education programmes has been a very important of part of the project. Prior to Covid the project had established and begun to deliver a programme of seminars on building preservation for building owners, engagement in schools and training. The traditional building skills workshops were unable to take place. Online engagement sessions, including provision of material for heritage walks, history of the town, storytelling for schools and paper craft based sessions, have occurred.

3.23 Training and awareness of traditional building skills and building care is due to restart this year, as are hopeful heritage based drama productions. On site building skills, with a heritage base, very successfully restarted in January with Penicuik secondary schools in January 2022. The project's archivist continues to work with the Penicuik History Society on recording and digitising their extensive material.

3.24 Below is a summary of the training and engagement work undertaken through the Penicuik TH/CARS project. It highlights the extensive nature and scope of the whole project and that it is not just focused on buildings but also education and involvement:

Traditional Construction Skills Training

- seminars and workshops in the primary schools, coupled with the contractor involved in the public realm works facilitating construction workshops;
- seminars delivered, with the help of professionals, to professionals, home owners and apprentices/students on the repair and restoration of traditional buildings, one in partnership with Changeworks on home energy efficiency;
- shopfront design seminars and workshops with exhibitions and handouts/guidance documents, bringing in sign writers and specialists to help deliver them;
- three Career Ready students have been placed on month long internships on construction and heritage related projects;
- the training plan - delivered the first phase to schools with Edinburgh College, one of the project's training providers. Over 90 pupils over 2 days being able to do hands on stone carving, slating work and plastering and sign writing;
- delivered two workshops with schools on repurposing buildings. Involved 24 Penicuik secondary schools pupils taking part over the two days;
- next phases of the training plan will be delivered before spring 2022 - two workshop sessions delivered by Edinburgh College at their Granton campus on stone repair and repointing, roofing and joinery. It will involve 24 Penicuik secondary schools.
- later in spring 2022 hands on training for 30 Penicuik secondary school pupils on repairing and repointing sections of the stone boundary walls in St Mungo's churchyard, Penicuik will be delivered by training provider Craig Frew;

Community Engagement Work

- Heritage Heroes project with Archaeology Scotland involving 6 pupils from Beeslack School over three years;
- heritage craft workshops take place each year of the project over a number of months and average 8 people per session;
- joint projects with the Penicuik Community Development Trust including workshops, guided tours at the Penicuik Press on heritage issues and paper making, weekend events in Penicuik Town Hall with talks and exhibitions on Penicuik's history and heritage;
- assisting community groups with bids for grants for heritage projects, including joint projects with the Penicuik Alliance and their application to the Scottish Government Climate Challenge Fund;
- community arts project under way, three workshops undertaken with the local community;
- Joint projects with Penicuik Arts Association, including built environment drawing classes;
- having events at the Penicuik Hunter and Lass;

- hosting Doors Open Day events each year with talks, workshops and exhibitions;
- appointing storey tellers to work with Penicuik primary schools on heritage based themes – with films being to the schools;
- projects with Edinburgh School of Architecture and students coming out over the first two years (2018 and 2019) doing projects on buildings in Penicuik town centre;
- facilitating the "Town Hall for All" project, with all Penicuik primary schools and pupils coming up with ideas for the future of the Town Hall. The ideas were showcased at the 2018 Venice Biennale.
-

Project Archivist Work

- working with the Penicuik Historical Society to digitise and make their collection more accessible. Training volunteers and working with Duke of Edinburgh Award students;
- working with the storey tellers to digitise their work for the schools and others;
- producing comic booklets for younger people to stimulate interest in history and heritage stories;
- facilitating heritage days and events, such as in St Mungo's Church Yard and being involved in the annual Hunter and Lass; and
- putting together exhibitions with the Penicuik Historical Society about the history and heritage of the town.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

There are no Capital or Revenue implications from this report.

The report is for information purposes only and not for decision making.

4.2 Digital

There are no IT implications from this report.

4.3 Risk

There are no risks associated this report. The report is for information purposes only and not for decision making.

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

The report is for information purposes only and not for decision making.

This report does not relate to a new / revised policy / service change / budget change. It is therefore considered that undertaking an Equalities Impact Assessment (EqIA) in relation to this report is unnecessary. An EqiA for the Penicuik Heritage Regeneration project was undertaken to accompany the report to Cabinet on 30 August 2016 that sought approval for submission of the bid the application to the National Lottery Heritage Fund for a Townscape Heritage (TH) project and Historic Environment Scotland for a Conservation Area Regeneration Scheme (CARS) in Penicuik town centre.

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications
Appendix B – Background information/Links

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

The Single Midlothian Plan promotes economic growth and support for town centres. Investment in town centre public realm helps increase their attractiveness which help support their vitality and vibrancy.

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

All works and financial spend undertaken through the Penicuik TH/CARS project has been secured following Council procurement rules. The project has had to justify grant allocations to external project funders, the National Lottery Heritage Fund and Historic Environment Scotland.

A.5 Involving Communities and Other Stakeholders

The decision making of The Penicuik TH/CARS project is governed by a project team. The project team is made up of the Penicuik Alliance, Penicuik Community Development Trust, Penicuik and district Community Council, local elected Midlothian Council Councillors and Council officers. When it was operational Penicuik First (BIDs) were on the project team. Some former members of Penicuik First are still involved in the project.

A.6 Impact on Performance and Outcomes

Town centre improvements can assist in promoting economic development and in meeting specific objectives of the Single Midlothian Plan.

A.7 Adopting a Preventative Approach

Investment in town centres can arrest and reverse their decline. Investment in old buildings can reduce future maintenance costs.

A.8 Supporting Sustainable Development

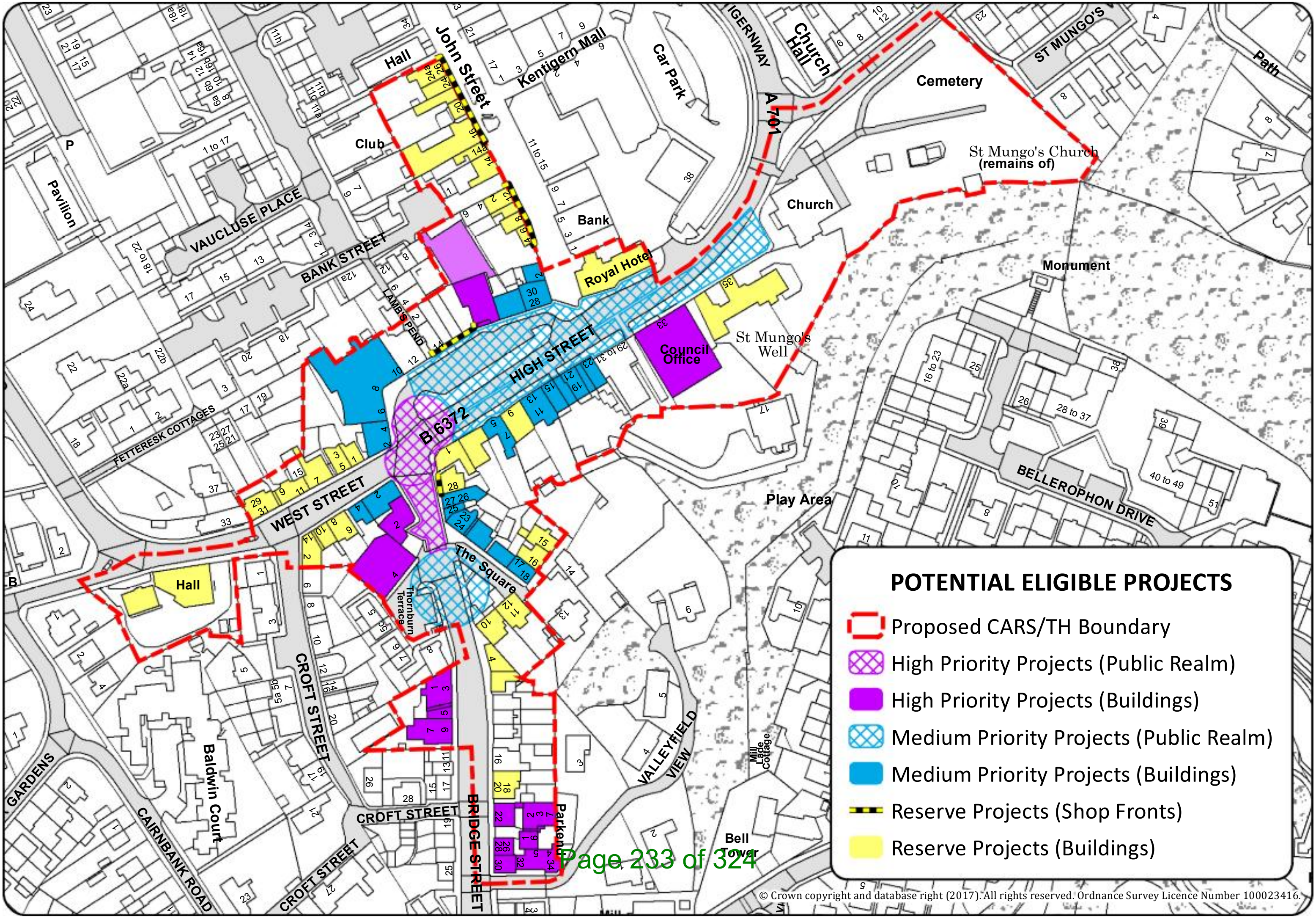
Vibrant and vital town centres which are well connected by public transport are contributors to a more sustainable economic and physical environment. Improving the public realm in Penicuik town centre will help increase the attractiveness of the town centre and help encourage people to visit and spend time and money in the town centre. This will help improve the sustainability of Penicuik town centre.

This report does not relate to the adoption by the Council of a strategic document and “Strategic Environmental Assessment” (“SEA”) legislation does not apply to this report.

APPENDIX B

Background Papers/Resource Links

Plan showing the boundary of the Penicuik TH/CARS project area and identified projects for taking forward through the scheme.


POTENTIAL ELIGIBLE PROJECTS
Proposed CARS/TH Boundary
High Priority Projects (Public Realm)
High Priority Projects (Buildings)
Medium Priority Projects (Public Realm)
Medium Priority Projects (Buildings)
Reserve Projects (Shop Fronts)
Reserve Projects (Buildings)
HIGH STREET
WEST STREET
John Street
BRIDGE STREET
CROFT STREET
The Square
BANK STREET
VAUCLUSE PLACE
FETTERESK COTTAGES
BELLEROPHON DRIVE
VALLEYFIELD VIEW
CAIRNBANK ROAD
Baldwin Court
Kentigern Mall
Car Park
Cemetery
St Mungo's Church (remains of)
St Mungo's Well
Council Office
Royal Hotel
Church
Monument
Play Area
Bell Tower
Pavilion
Hall
Club
Bank
B 6372
A 701

Proposed Change to the Schedule of Meeting of the Audit Committee

Report by Kevin Anderson, Executive Director, Place

Report for Decision

1 Recommendations

Council is recommended to approve the change of the next scheduled meeting date of the Audit Committee from 1 March 2022 at 11.00AM to 14 March 2022 at 2.00PM.

2 Purpose of Report/Executive Summary

The change of date to the previously approved Schedule of Meeting Dates is requested in order to allow the range of reports to be completed by the Internal Audit Team for the Audit Committee meeting in March 2022. This will also permit any Audit Committee recommendations at the final meeting of this term so be considered at the final meeting of this term of Midlothian Council on 29 March, 2022.

Date: 24 January 2022
Report Contact:
Name: Kevin Anderson, Executive Director – Place
Email: kevin.anderson@midlothian.gov.uk
Tel: 0131 271 3102

3 Background

At the Council Meeting on 17 November 2020, the Council approved the schedule of meeting dates for 2021 and 2022 recommended by the Short Life Working Group.

In order to allow the range of reports to be completed by the Internal Audit Team for the Audit Committee meeting in March 2022, the change of date to the previously approved Schedule of Meeting Dates is requested.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

None

4.2 Digital

None

4.3 Risk

The risk is that reports will not be completed in time to be presented to the Audit Committee for consideration and approval.

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

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

5.5 Additional Report Implications

None

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on delivering Best Value

A.5 Involving Communities and Other Stakeholders

The report does not directly relate to involving communities

A.6 Impact on Performance and Outcomes

The report request is to avoid any disruption to performance and outcomes.

A.7 Adopting a Preventative Approach

Not applicable

A.8 Supporting Sustainable Development

Not applicable

St Margaret's RC Primary School

Report by Executive Director Children, Young People & Partnerships

Report for Decision

1 Recommendations

Council is recommended to approve the following:

i. The provision of primary education at St Margaret's RC Primary School will be discontinued from 1 July 2022;

ii. The catchment areas of St Mary's, St Matthew's and Sacred Heart RC Primary Schools will be extended to include the St Margaret's catchment area;

iii. Remaining pupils will be allocated a place at St Mary's RC Primary School or they can choose to attend their non-denominational catchment primary school;

iv. School transport will be provided for all children affected, where there is no safe walking route to school and/or the distance from home to school is more than two miles;

v. Provision of Early Learning and Childcare will continue as per current arrangements.

2 Purpose of Report/Executive Summary

This report advises the outcome of the statutory consultation on the proposal to discontinue the provision of primary education at St Margaret's RC Primary School.

The school roll at St Margaret's RC PS fell from 40 to 18 pupils and there were indications that a number of these children would move to other schools in the near future - by September 2021 all pupils had enrolled at other schools.

The statutory consultation on the proposal was undertaken in the period from Tuesday 28 September to Tuesday 16 November 2021. The report on the outcome of the consultation was published on 24 January 2022 and provides full details of the process undertaken, representations made and Education Scotland's report on the proposal.

Date: 21 January 2022
Report Contact:
Katy Johnstone, Resource Officer, Education
Katy.Johnstone@midlothian.gov.uk

3 Background

1. The *Education (Scotland) Act 1980* places a legislative duty on the Council to make adequate and efficient provision of school education across its area. This duty applies in respect of both the current school population and anticipated pattern of demand.

2. Section 3D of the *Standards in Scotland's Schools etc. Act 2000* (as inserted by Section 2 of the Education (Scotland) 2016 Act) introduces a requirement on education authorities to carry out their duty to ensure the delivery of improvement in the quality of school education which is provided in the schools they manage, with a view to achieving the strategic priorities of the National Improvement Framework. It is, therefore, the duty of the education authority to ensure that the education it provides is directed to the development of the personality, talents and the mental and physical abilities of the children to their fullest potential.

3. In addition, Councils have a statutory duty to secure best value in terms of the *Local Government in Scotland Act 2003* by continuous improvement in performance of the local authority's functions, while maintaining an appropriate balance between quality and cost and having regard to economy, efficiency, effectiveness, equal opportunities and the achievement of sustainable development.

4. In 2019 the Education Service initiated a review of Midlothian's denominational school provision, in the context of a national shortfall in availability of teachers with approval necessary to teach in Roman Catholic (RC) schools.

5. Informal consultation meetings were held with staff and parents over 2019 and 2020 as part of the denominational review. Parental support for the RC schools in Midlothian in terms of choice of school remained strong throughout this period with the exception of St Margaret's RC PS. The school roll at St Margaret's RC PS fell from 40 to 18 pupils and there were indications that a number of these children would move to other schools in the near future.

6. In June 2021 officers of the Council held virtual meetings with St Margaret's RC PS parents and representatives of the Catholic Church informing them of the intention to propose to proceed to statutory consultation on the proposal to close St Margaret's.

7. Consequently on 29 June 2021 at full Council the Executive Director Children, Young People & Partnerships was authorised to undertake statutory consultation on the proposal to permanently discontinue primary education at St Margaret's RC Primary School and to extend the catchment areas of the neighbouring primary schools to include the St Margaret's RC PS catchment area.

8. The statutory consultation on the proposal was undertaken in the period from Tuesday 28 September to Tuesday 16 November 2021. The report on the outcome of the consultation was published on 24

January 2022, Appendix B, and provides full details of the process undertaken, representations made and Education Scotland's report on the proposal. The report is available on the Council's website: https://www.midlothian.gov.uk/download/downloads/id/4409/st_margarets_consultation_report.pdf

9. The Education Service offered additional consultation sessions over and above the required statutory public meeting. Further information on these sessions can be found in the consultation report section 4. No members of the public attended either the public meeting held in Loanhead Primary School on Tuesday 12 October 2021 or the virtual public meeting held via MS Teams on Wednesday 13 October 2021.

10. A total of 72 responses to the consultation were received during the period of the statutory consultation, 71 survey responses and 1 other response received via email. Of the 71 responses to the survey, 30 agreed or strongly agreed with the proposal, 38 disagreed or disagreed strongly, 2 gave no opinion and 1 did not answer.

11. Education Scotland's Her Majesty's Inspectors of Education (HM Inspectors) prepare a report in accordance with the terms of the Schools (Consultation) (Scotland) Act 2010 ("the 2010 Act"). The purpose of the report is to provide an independent and impartial consideration of Midlothian Council's proposal (Appendix C).

12. The Education Scotland report summary states:

    "The council provides a strong case for the proposed discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. If the proposal is implemented, HM Inspectors consider that the proposal has the potential to support the council in providing high-quality denominational provision across six RC primary schools. This would include St Mary's RC Primary School, the neighbouring denominational primary school. St Mary's RC Primary School would provide children from St Margaret's RC Primary School with a wide range of experiences and outcomes linked to Curriculum for Excellence, and increased opportunities for success. It would also help children to develop social relationships more easily with their peers."

13. The consultation report was published on 24 January 2022 leaving the required period of at least three weeks for further representations to be made prior to Council's consideration of the report and its decision regarding the recommendations:

    i. The provision of primary education at St Margaret's RC Primary School will be discontinued from 1 July 2022;
    ii. The catchment areas of St Mary's, St Matthew's and Sacred Heart RC Primary Schools will be extended to include the St Margaret's catchment area;
    iii. Remaining pupils will be allocated a place at St Mary's RC Primary School or they can choose to attend their non-denominational catchment primary school;

iv. School transport will be provided for all children affected, where there is no safe walking route to school and/or the distance from home to school is more than two miles;
v. Provision of Early Learning and Childcare will continue as per current arrangements.

14. Section 15 of the *Schools (Consultation) (Scotland) Act 2010* enables Scottish Ministers to call-in a decision to implement the proposed discontinuation of primary education provision at St Margaret's RC Primary School. If the decision of Council is to implement the proposal, it will be required to notify the Scottish Ministers of that decision, and provide them with a copy of the proposal document and Consultation Proposal. This must be done within six working days of that decision. The Scottish Ministers have an eight week period from the date of that final decision to decide if they will call-in the proposal. The legislation allows for any person to make representations to Scottish Ministers within three weeks of the Council taking a decision to implement a closure proposal. The Scottish Ministers will take account of the consultation report, Education Scotland HM Inspectors report and any relevant representations made to them by any person.

15. Until the outcome of the eight week call-in process is known, the Council cannot proceed to implement the proposal. If the Scottish Ministers call-in the proposal, they must refer the proposal to the Convener of the School Closure Review Panels who may refuse to consent to the proposal or grant their consent to the proposal subject to conditions or unconditionally.

16. The recommendation of the consultation report is for Council to approve the discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. This is subject to the conclusion and outcome of the Scottish Ministers call-in process. If approved the date of closure will be the later of the last day of the 2021/22 school session or an appropriate date following notification of the outcome of the call-in.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

1. The financial implications of this proposal are detailed in the consultation proposal document, Appendix E. Should this proposal be implemented there is an estimated annual revenue budget saving of £26,593. This saving is predicated on the disposal of the building, revenue costs will continue to be borne by the Council until such time as the building is disposed of.

2. If this proposal is implemented, the staff in St Margaret's RC Primary School will all be offered positions in other schools

3. There are no capital budget implications directly associated with this proposal. Housing developments across Midlothian make a contribution

to the cost of providing consequential educational capacity. This applies equally across the St Margaret's catchment and any contributions received will be applied against the cost of the additional capacity that will be provided to serve the area.

4.2 Digital

None

4.3 Risk

None

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

An Integrated Impact Assessment has been carried out and published, Appendix D.

4.4 Additional Report Implications

None

Appendices

Appendix A – Additional Report Implications

Appendix B – Consultation Report, January 2022

Appendix C – Education Scotland Report

Appendix D – Consultation Proposal Paper, September 2021

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan Item 8.12
Not applicable

A.2 Key Drivers for Change
Key drivers addressed in this report:

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

A.3 Key Delivery Streams
Key delivery streams addressed in this report:

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

A.4 Delivering Best Value
The implementation of the recommendation of this report will enhance best value in the delivery of Council services.

A.5 Involving Communities and Other Stakeholders
This report provides details of the statutory consultation undertaken with communities and all stakeholders regarding the proposal to discontinue the provision of primary education at St Margaret's RC Primary School.

A.6 Impact on Performance and Outcomes
The report does not directly impact on Midlothian Council's performance and outcomes

A.7 Adopting a Preventative Approach
Not applicable

A.8 Supporting Sustainable Development
Not applicable

Item 8.12

Midlothian Council

Children, Young People and Partnerships Directorate

Statutory Consultation Report

Report on the outcome of the consultation on the proposed discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022.

15 February 2022

This Consultation Proposal has been issued by Midlothian Council in accordance with the Schools (Consultation) (Scotland) Act 2010.

CONTENTS

Midlothian Council

Children, Young People and Partnerships Directorate

This report has been prepared following a statutory consultation on the following proposal:

Proposed discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022.

Subject to the outcome of the consultation:

- The provision of primary education at St Margaret's RC Primary School will be discontinued from 1 July 2022
- The catchment areas of St Mary's, St Matthew's and Sacred Heart RC Primary Schools will be extended to include the St Margaret's catchment area
- Remaining pupils will be allocated a place at St Mary's RC Primary School or they can choose to attend their non-denominational catchment primary school.
- School transport will be provided for all children affected, where there is no safe walking route to school and/or the distance from home to school is more than two miles
- Provision of Early Learning and Childcare will continue as per current arrangements

The closure of St Margaret's RC Primary School will directly affect the following schools:

- St Margaret's RC Primary School
- St Mary's RC Primary School
- St Matthew's RC Primary School
- Sacred Heart RC Primary School

The following schools will be indirectly affected by the proposal:

- St David's RC High School
- Loanhead Primary School

Having had regard (in particular) to:

a) Relevant written representations received by the Council (from any person) during the consultation period
b) Oral representations made to it (by any person) at the public meeting held on 12 October 2021 and the virtual public meeting held on 13 October 2021
c) Any representations made to it by Parent Councils
d) Oral representations made to it at the virtual public drop-in sessions on 27 October 2021
e) Written representations made to it by pupils
f) Education Scotland's report on the proposal

1 Introduction

1.1 Midlothian Council at full council on 29 June 2021 agreed to undertake a statutory consultation on the proposal as outlined above.

1.2 This is a Consultation Proposal prepared in compliance with the *Schools (Consultation) (Scotland) Act 2010* on the above proposal

1.3 The purpose of this report is to:

- Provide a record of the total number of written responses made during the Statutory Consultation period;
- Provide a summary of the written responses;
- Provide a summary of the oral representations made at the public meetings held on 12 and 13 October 2021;
- Provide a statement of the Council's response to those written and oral representations;
- Provide the full text of Education Scotland's report and a statement of the Council's response to this report;
- State how the Council reviewed the above proposal following the representations received during the Statutory Consultation period and the report from Education Scotland;
- Provide details of any alleged omission from, or inaccuracy in, the Consultation Proposal Document and state how the Council acted upon it; and
- State how the Council has complied with Section 12 of the *Schools (Consultation) (Scotland) Act 2010* when reviewing the above proposal.

2 Background

2.1 *The Education (Scotland) Act 1980* places a legislative duty on the Council to make adequate and efficient provision of school education across its area. This duty applies in respect of both the current school population and anticipated pattern of demand.

2.2 Section 3D of the *Standards in Scotland's Schools etc. Act 2000 (as inserted by Section 2 of the Education (Scotland) Act 2016)* introduces a requirement on education authorities to carry out their duty to ensure the delivery of improvement in the quality of school education which is provided in the schools they manage, with a view to achieving the strategic priorities of the National Improvement Framework. It is, therefore, the duty of the education authority to ensure that the education it provides is directed to the development of the personality, talents and the mental and physical abilities of the children to their fullest potential.

2.3 In addition, Councils have a statutory duty to secure best value in terms of the *Local Government in Scotland Act 2003* by continuous improvement in performance of the local authority's functions, while maintaining an appropriate balance between quality and cost and having regard to economy, efficiency, effectiveness, equal opportunities and the achievement of sustainable development.

2.4 The Council has a number of statutory duties relating to the provision of education in its area including the statutory consultation that must be undertaken when proposing a permanent change to any of their schools, including Nursery Schools, such as closure, relocation or change of catchment area. *The Schools (Consultation) (Scotland) Act 2010* principal purpose is:

> "to provide strong, accountable statutory consultation practices and procedures that local authorities must apply to their handling of all proposals for school closures and other major changes to schools."

2.5 The Proposal Document and this Final Report have been prepared in accordance with the *Schools (Consultation) (Scotland) Act 2010*, having regard to the statutory guidance published by the Scottish Government on 14 May 2015, both of which are available for reference at the following websites:

Schools (Consultation) (Scotland) Act 2010: http://www.legislation.gov.uk/asp/2010/2/contents

Statutory Guidance (14 May 2015):
http://www.gov.scot/Publications/2015/05/4615

The following information has also been used to prepare the report:

- Relevant written representations received by the Council (from any person) during the consultation period
- Oral representations made to it (by any person) at the public meeting held on 12 October 2021 and the virtual public meeting held on 13 October 2021
- Any representations made to it by Parent Councils
- Oral representations made to it at the virtual public drop-in sessions on 27 October 2021
- Written representations made to it by pupils
- Education Scotland's report on the proposal

Midlothian's Vision for Education

2.6 The Council is ambitious for the future of Midlothian. The Vision for Midlothian is a Great Place to Grow. The Community Planning Partnership has identified Carbon Neutral by 2030 as an overarching aim supported by 3 main priorities:

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

2.7 We continue to aspire to deliver a world-class education system through equity and excellence. Our vision is to provide the highest quality inclusive education, learning and employability service for all individuals and families in Midlothian. To realise this vision we will support the priorities set out in the Single Midlothian Plan, Getting it Right for Every Child and will:

- give all our children the best possible start in life, providing an inclusive learning environment that builds resilience;
- ensure that every young person has the opportunity to be a successful learner, confident individual, responsible citizen and an effective contributor who is healthy and happy, especially those who are care experienced;
- work with our communities to promote high expectations which deliver the best educational outcomes for all learners; and
- celebrate diversity, reduce inequalities and remove barriers to learning.

2.8 In 2019 the Education Service initiated a review of Midlothian's denominational school provision, in the context of a national shortfall in availability of teachers with the qualifications necessary to teach Religious Education in Roman Catholic (RC) schools, which will have had an impact on the St Margaret's RC Primary school roll. However, this impact was not reflected across all other denominational schools also affected by the review.

2.9 Informal consultation meetings were held with staff and parents over 2019 and 2020 as part of the denominational review. Parental support for the RC schools in Midlothian in terms of choice of school remained strong throughout this period with the exception of St Margaret's RC PS. The school roll at St Margaret's RC PS fell from 40 to 18 pupils and there were indications that a number of these children would move to other schools in the near future.

2.10 In June 2021 officers of the Council held virtual meetings with St Margaret's RC PS parents and representatives of the Catholic Church informing them of the intention to propose to proceed without delay to statutory consultation on the proposal to close St Margaret's.

2.11 Consequently on 29 June 2021 at full Council the Executive Director Children, Young People & Partnerships was authorised to undertake statutory consultation on the proposal to permanently discontinue primary education at St Margaret's RC Primary School and to extend the catchment areas of the neighbouring primary schools to include the St Margaret's RC PS catchment area.

3 Considerations

3.1 The main considerations relating to the proposed discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. These are fully explained in the Consultation Proposal Document. The main points are highlighted below:

- The responsibilities associated with the National Improvement Framework and the new duties imposed on Education Authorities by the Standards in Scotland's Schools etc. Act 2000 as amended by the 2016 Act.
- The agreed principles underpinning the development of an empowered school led system set out in the 'Education Bill Policy Ambition- Joint Agreement', June 2018 https://www.gov.scot/Publications/2018/06/8745/downloads
- The duties placed on local authorities in relation to the adequate and efficient provision of school education in their area

- The duties placed on local authorities to secure best value in the delivery of services

4 The Consultation Process

4.1 The Council has met the requirements set out in the *Schools (Consultation) (Scotland) Act 2010* with regards to ensuring the views of the community were listened to and their views are included in this report. Midlothian officers also engaged with Education Scotland to ensure that COVID guidance was followed, while fulfilling statutory consultation requirements. This meant that almost all meetings took place virtually, apart from one physical public meeting held as a requirement of the Schools Consultation Scotland Act In order to further ensure compliance with the Act, an independent consultant was engaged to chair all meetings to ensure impartiality.

The Council believes that this report accurately reflects the views of the community, which have been gathered through a range of engagement events and response mechanisms.

It is for members of Midlothian Council to decide to adopt the proposal, withdraw it or seek to consult on another proposal.

4.2 Notification of the consultation was given to all statutory consultees prior to the commencement of the consultation.

4.3 The Consultation Proposal Document was published on Midlothian Council's website and paper copies distributed on 24 September 2020 to:

- St Margaret's RC Primary School, 36 Edgefield Road, Loanhead, EH20 9DY
- St Mary's RC Primary School, Rosewell Road, Bonnyrigg, EH19 3HL
- St Matthew's RC Primary School, 32 Carnethie Street, Rosewell, EH24 9AT
- Sacred Heart RC Primary School, Crockett Gardens, Penicuik, EH26 9BB
- St David's RC High School, 1 Cousland Road, Dalkeith, EH22 2PS
- Loanhead Library, The Loanhead Centre, George Avenue, Loanhead, EH20 9LA

4.4 Copies of the Consultation Proposal Document were emailed to affected consultees (see list below) and schools and others such as child minders on 24 September 2021.

4.5 Affected consultees:

- The pupils attending St Margaret's RC Primary School
- The pupils attending St Mary's, St Matthew's and Sacred Heart RC Primary Schools
- The Parent Council of St Margaret's RC Primary School
- The Parent Councils of St Mary's, St Matthew's and Sacred Heart RC Primary Schools
- The parents / carers of pupils and children expected to attend St Margaret's, St Mary's, St Matthew's and Sacred Heart RC Primary Schools within two years of the date of publication of the proposal paper
- The staff employed by the Council and based at St Margaret's, St Mary's, St Matthew's and Sacred Heart RC Primary Schools
- The Trade Union and Professional Associations Representatives of the above staff

- The Community Councils of Loanhead and District, Damhead and District, and Roslin and Bilston
- Community Planning Partnership
- Other users of St Margaret's RC Primary School

4.6 The consultation period commenced on Tuesday 28 September 2021 and lasted until Tuesday 16 November 2021, being a period of six weeks, which also included the statutory minimum 30 school days.

4.7 The proposal on which the consultation took place was:

- The proposed discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022.

4.8 The requirements for consulting on a relevant proposal relating to schools are set out in the *Schools (Consultation) (Scotland) Act 2010*.

4.9 An information leaflet setting out details about the proposal and consultation meetings was issued to the consultees listed in the Consultation Proposal Document. Advice on where the complete Consultation Proposal Document could be obtained was included and was published on Midlothian Council's Consultation Hub:

Consultations - Proposal to discontinue education provision at St Margaret's RC Primary School | Midlothian Council

4.10 If requested, copies of the proposal would have been made available in alternative formats or translated for readers whose first language is not English.

4.11 A 'Frequently Asked Questions' document was also prepared which was available at the same location on the Midlothian Council's Consultation Hub.

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4.12 In addition the consultation was publicised and received engagement in the following ways:

- There were 14 Facebook reminders to fill in the survey or join the online/public meetings. The top performing post, the first one on 2 October reached 9,841 news feeds and 1,085 people engaged with the post in some way such as clicking into it to find out more. On Facebook 4,000 people engaged with posts in some way.
- There were 14 Twitter reminders. The best performing achieved 2,229 impressions and 100 engagements. In total, 423 people engaged with the posts in some way on Twitter.
- Consultation pages were created on the Midlothian Council website along with 'friendly' url of www.midlothian.gov.uk/stmargarets. There were 616 views of these pages.
- An advertisement was placed in the Midlothian Advertiser week beginning Monday 4 October.
- The consultation was pushed twice during a Council news slot on a local radio station.

4.13 A generic email account was set up by the Council to receive representations and enquiries on the proposal.

4.14 The public meeting was held at Loanhead Primary School on Tuesday 12 October 2021 at 6.30 pm and a virtual public meeting was held via Microsoft Teams on Wednesday 13 October 2021 at 6.30 pm.

4.15 In addition to specific meetings with statutory consultees, a virtual drop-in meeting via MS Teams was held on 27 October 2021 at which members of the public and staff were welcome to attend.

4.16 In accordance with statutory requirements, the following persons, including those indirectly affected, were consulted:

- The Parent Councils of St Mary's, St Matthew's and Sacred Heart RC Primary Schools.
- The parent/carers of children at St Margaret's, St Mary's, St Matthew's and Sacred Heart RC Primary Schools
- The parents/carers of any children expected to attend St Margaret's RC Primary School within two years of the date of publication of the proposal.
- The staff at St Margaret's, St Mary's, St Matthew's and Sacred Heart RC Primary Schools
- The trade union representatives of the above staff.
- Loanhead and District Community Council
- Damhead and District Community Council
- Roslin and Bilston Community Council
- Community Planning Partnership

4.17 The following schools are directly affected by the proposal:

- St Margaret's RC Primary School
- St Mary's RC Primary School
- St Matthew's RC Primary School
- Sacred Heart RC Primary School

4.18 Representations were sought from statutory consultees and the wider public in the following ways:

- An online questionnaire on Midlothian Council's Consultation Hub. The questionnaire asked specific questions and enabled general comments and views to be entered.
- Paper and digital leaflets, in addition to the press advert and Council web and social media announcements linked to the Consultation Hub. These detailed a specific Education Consultations email inbox, to which any queries could be submitted during the consultation period.
- The Head Teachers of St Mary's, St Matthew's and Sacred Heart RC Primary Schools used established methods of communication to engage/remind parents about the consultation.
- In addition to the public meeting and public drop-in sessions, informal meetings were offered to staff at the directly affected schools to discuss any queries or

concerns they may have on the proposal based around their availability and at their discretion.

- Meetings were offered to pupils from St Matthew's, St Mary's, St Matthew's and Sacred Heart RC Primary Schools.
- Meetings were offered to St Margaret's RC, St Mary's RC, St Matthew's RC, Sacred Heart RC and Loanhead Primary Schools Parent Councils.

4.19 The Consultation Proposal is the Council's response to the points raised during the consultation period on the Consultation Proposal Document.

4.20 This Consultation Proposal will be published for a period of three weeks before a final decision is taken by Midlothian Council on 15 February 2022.

5 The Public Meetings

5.1 A public meeting was held in Loanhead Primary School on Tuesday 12 October 2021. No members of the public attended.

5.2 A virtual public meeting was held via Microsoft Teams on Wednesday 13 October 2021. No members of the public attended.

5.3 Virtual meetings were also offered to the Parent Councils of St Margaret's RC, St Mary's RC, St Matthew's RC, Sacred Heart RC and Loanhead Primary Schools, however no meetings were requested.

6 Responses to the Consultation Exercise

6.1 As part of the consultation process, the Council sought the views of a wide range of stakeholders. The Council provided stakeholders with a short online or paper questionnaire and also made arrangements for receiving additional written responses. The Council received 71 responses to its questionnaire during the consultation period. All representations that had been made during the consultation period were submitted to Education Scotland and any issues or concerns raised are also subject to the Council's response in this Consultation Proposal.

The questionnaire responses are summarised by category in the following tables:

Table 1 – Number of respondents by type of respondent

Type of Respondent	No. of Responses	% of Responses
Groups	0	0%
Individuals	71	100%
Total Responses	**71**	**100%**

Table 2 – Number of individual respondents by category

Individual Respondent	No. of Responses	% of Responses
Parents	18	22.2%
Staff	2	2.5%
Member of Local Community	41	50.6%
Other/Unknown	20	24.7%
Total Responses	**81**	**100%**

**The total number of respondents differs from the number of respondents by category because some respondents identified with more than one category.*

6.2 In addition, one response to the consultation was received by email.

6.3 For the Question: To what extent do you agree or disagree with the proposal to discontinue primary education provision at St Margaret's RC Primary School? The responses were as follows:

Table 3 – Number of Responses by Opinion

Response	No. of Responses	% of Responses
Strongly Agree	23	32.4%
Agree	7	9.9%
No Opinion	2	2.8%
Disagree	4	5.6%
Strongly Disagree	34	47.9%
Not Answered	1	1.4%
Total Responses	**71**	**100%**

Table 4 - Number of respondents by category

	Agree/Strongly Agree		Disagree/Strongly Disagree		No opinion/Not answered		Total	
Individual Respondents	No.	%	No.	%	No.	%	No.	%
Parents	5	15.6%	13	28.3%			18	22.2%
Staff	1	3.1%	1	2.2%			2	2.5%
Member of Local Community	17	53.1%	23	50%	1	33.3%	41	50.6%
Other/Unknown	9	28.1%	9	19.6%	2	66.6%	20	24.7%
Total Responses	**32**	**39.5%**	**46**	**56.8%**	**3**	**3.7%**	**81**	**100%**

**The total number of respondents differs from the number of respondents by category because some respondents identified with more than one category.*

6.4 The comments made as part of the questionnaire submissions are included in Appendix 1, apart from submissions which consultees did not wish Midlothian Council to share publicly. Even if a submission is not shared publicly, it has still been included in the collation of stakeholder's views and informed the Education Authority's response as detailed in Section 10 of this report.

Response Analysis from Groups

6.5 There were no responses from groups within the online questionnaire.

Public Meeting

6.6 A public meeting was arranged in Loanhead Primary School on 12 October 2021 and a virtual public meeting via Microsoft Teams was arranged for 13 October 2021. There was no attendance by members of the public at either meeting.

6.7 Additionally, a virtual drop-in session was arranged for 27 October 2021, enabling any member of the public and staff to ask questions and discuss the proposal, the consultation process and how they could make representations. One member of the public attended these sessions.

Pupil & Staff Sessions

6.8 During the consultation period, Council officers offered to facilitate meetings with pupils and staff at St Margaret's RC, St Mary's RC, St Matthew's RC, Sacred Heart RC and Loanhead Primary Schools to provide good opportunities for them to discuss their views. No meetings were requested by either staff or pupils at the schools.

6.9 In addition to offering to meet with pupils, a copy of a pupil questionnaire was sent to each of the schools. Collective pupil responses were received from Loanhead, Stobhill and Sacred Heart RC Primary Schools and can be found in Appendix 2. Although

Stobhill PS was not affected by the consultation, pupils who had moved there from St Margaret's RC PS were consulted.

6.10 A copy of a questionnaire was also sent to pupils and staff at Treehouses Additional Support Needs provision who are currently occupying the St Margaret's RC PS building. A collective pupil response as well as two individual staff responses were received and can be found in Appendix 3.

7 Support for the Proposal

7.1 42.9% of all individual questionnaire respondents (30 responses) to the consultation were in favour of discontinuing primary education provision at St Margaret's RC Primary School. The full text of all responses received can be read in Appendix 1, apart from submissions which consultees did not wish Midlothian Council to share publicly. Even if a submission is not shared publicly, it has still been included in the collation of stakeholder's views and informed the Education Authority's response as detailed in Section 8 of this report.

7.2 A number of common points and questions emerged from the responses as follows:

- Why a consultation on how the space should be used was not considered?
- There is no longer a need for denominational schools
- The space should be used by the staff and pupils at Loanhead
- Where are all the additional staff from these units going to go?
- Is this (what the building is currently being used for) the best option for all parties?

8 Opposition to the Proposal

8.1 53.5% of all individual questionnaire respondents (38 responses) to the consultation were not in favour of discontinuing primary education provision at St Margaret's RC Primary School. The full text of all responses received can be read in Appendix 1, apart from submissions which consultees did not wish Midlothian Council to share publicly. Even if a submission is not shared publicly, it has still been included in the collation of stakeholder's views and informed the Education Authority's response as detailed in Section 10 of this report.

8.2 A number of common points and questions emerged from the responses as follows:

- The consultation is a pointless exercise
- The Council did not let parents register children at the school
- Capacity issues at other local schools should mean the school remains open
- The Council has deliberately tried to close the school
- Instead of closing the school, could it be a shared campus?
- Travelling to Penicuik for school is too far for young children
- It is a waste of a school building

9 No Opinion on the Proposal

9.1 2.8% of all individual questionnaire respondents (2 responses) to the consultation had no opinion on the discontinuation of primary education provision at St Margaret's RC

Primary School. The full text of all responses received can be read in Appendix 1, apart from submissions which consultees did not wish Midlothian Council to share publicly. Even if a submission is not shared publicly, it has still been included in the collation of stakeholder's views and informed the Education Authority's response as detailed in Section 8 of this report.

9.2 A number of common points and questions emerged from the responses as follows:

- Will there be a cost to the Council ratepayers to come out of the PFI deal?

10 Education Authority Response to the Main Issues Raised

10.1 Why a consultation on how the space should be used was not considered?

10.1.1 There was an informal consultation held on the use of the school building by Treehouses ASN provision. Council officers met with staff from the provision that are currently occupying the space as well as staff from St Margaret's RC PS and Loanhead PS.

10.1.2 Officers also consulted with St Margaret's RCPS parents, Loanhead PS parents and presented to the Parent Council, where no objections were raised.

10.1.3 Although any option for potential future use would have to be carefully considered, with all relevant Council Departments and Stakeholders being fully consulted. However, given the growth across the Learning Estate and the need for additional ASN provision, the Education Service intends to propose that the building be retained for education purposes.

10.2 There is no longer a need for denominational schools

10.2.1 In line with the School Consultation Act 2010, a local authority must consult on any changes to its schools and Schedule 1 of the Act sets out all the categories of relevant proposals to which this Act applies. This proposal has been put forward to ensure equity of learning experiences for children as well as Best Value. These factors apply to both denominational and non-denominational schools.

10.2.2 The Catholic Church handed its schools over to the state in Scotland in the Education (Scotland) Act 1918 with certain guarantees as to their Catholic ethos and practice. The provisions from the 1918 Act have been replicated in education legislation ever since and are now manifest in the Education (Scotland) Act 1980.

10.2.3 An RC School is held, maintained and managed as a public state school subject to special safeguarded provisions resulting from particular links with the RC Church 'in whose interests the school has been conducted' (s21 1980 Act). There is a protocol between the Bishops of Scotland and Local Authorities that is safeguarded by the 1980 Act.

10.3 The space should be used by the staff and pupils at Loanhead

10.3.1 The Council has an agreed process for this. The Directorate that operates the premises will consider if they require the building or land for an alternative purpose, if they do not, they declare it surplus and other Directorates within the Council can put together a business case for its use. If the Council has no purposeful use for it, it can be considered for sale.

10.3.2 As St. Margaret's RC PS is on a shared campus with Loanhead PS, any option for potential future use would have to be carefully considered, with all relevant Council Departments and Stakeholders being fully consulted. However given the growth across the Learning Estate and the need for additional ASN provision the Education Service intends to propose that the building be retained for education purposes.

10.4 Where are all the additional staff from these units going to go?

10.4.1 Staff from St Margaret's RC PS have either transitioned into positions in other schools within Midlothian or will be supported to do so moving forward.

10.4.2 The staff currently occupying the school building have transitioned with the ASN provision therefore there will not be a surplus of staff as a result of this proposal.

10.5 Is this (what the building is currently being used for) the best option for all parties?

10.5.1 The school building is currently hosting provisions for pupils with Additional Support Needs (ASN), as an authority Midlothian is facing an increasing demand for specialist provision reflecting the growth across our communities. A full review of the ASN service is currently being undertaken to ensure we have sufficient facilities and capacities for our students with ASN.

10.5.3 Due to this demand, the use of the St Margaret's RC building for ASN provision underwent an informal consultation process and was agreed as the best course of action at this time.

10.5.2 If the proposal is approved the agreed process for deciding what this use will be, will (as stated in 10.3.1) take place.

10.6 The consultation is a pointless exercise

10.6.1 The Education (Scotland) Act 1980 places a legislative duty on the Council to ensure the adequate and efficient provision of school education across its area and must consult on certain changes in such arrangements before it can commit to delivering them.

10.6.2 The Schools (Consultation) (Scotland) Act 2010 sets out the statutory consultation that must be undertaken when proposing a permanent change to any of their schools. The principle of the Act is "... to provide strong, accountable statutory consultation practices and procedures that local authorities must apply to their handling of all proposals for school closures and other major changes to schools."

10.6.3 The consultation exercise ensures that the views of all members of the community have been listened to and are included in this report so that elected members can make an informed decision on whether or not to approve the proposal.

10.7 The Council did not let parents register children at the school

10.7.1 Parents are, and have always been, able to register their children at St Margaret's RC Primary School however the number of parents choosing to enrol their children at the school decreased from 12 in 2018 to 4 in 2021.

10.7.2 When Parents receive their primary school registration letter, the paragraph below is included to inform them that there may be changes to the school at which they would like to register their child:

"*Please note if one of your catchment primary schools is subject to a consultation review you should continue to register your child at that catchment school. As part of the consultation process we will keep you informed of the implications for your child and the options available to you. Further information on school consultations can be found at midlothian.gov.uk/consultations"*

10.8 Capacity issues at other local schools should mean the school remains open

10.8.1 As an authority we constantly review our school rolls and the available capacity at each school to ensure there are sufficient pupil places available in each catchment. The education service will continue to utilise the building to support capacity across the learning estate.

10.8.2 The school roll of St Margaret's RC Primary School has decreased significantly in the past few years, from 55 in 2018 to 2 in 2021. This does not ensure Best Value and highlights that the school was not contributing to a reduction in capacity issues in the local area.

10.9 The Council has deliberately tried to close the school

10.9.1 In 2019 an informal pre-consultation was held on the future of denominational school provision across the whole of Midlothian. The pre-consultation was held to find out what stakeholders and the community thought. Information about a range of considerations was presented along with 8 discussion models. These models ranging from retaining the status quo with 7 primary and one secondary schools, to one all-through (combined primary and secondary) school.

10.9.2 The Council took into account the views that were shared during this pre-consultation along with other factors, including looking at the pupil roll at each of the schools, when deciding the model to propose and carry out formal consultation on.

10.9.3 Following the pre-consultation the rolls of the other six primary schools remained stable. However, St Margaret's roll began to decline.

10.9.4 There is more information on the pre-consultation, the feedback received and the decision on the proposed model in the Denominational Review paper to the meeting of Midlothian Council on 29 June 2021.

10.10 Instead of closing the school, could it be a shared campus?

10.10.1 The St Margaret's RC Primary School building, which has capacity for 100 primary pupils, is part of the Ramsay Campus which was built in 2007 and is shared with Loanhead Primary School. The shared facilities include two P.E. halls, an expressive arts hall, dining facilities and a well-equipped playground.

10.10.2 The school does not have a separate nursery. Pupils who go on to attend St Margaret's RC Primary School have often attended the Loanhead Nursery which is co-located on the Ramsay Campus.

10.10.3 The school roll has declined in recent years from a high of 63 pupils in 2016 to 18 pupils by the time of the 2020 pupil census. At the start of the 2021/22 school year there were 2 pupils attending St Margaret's. Subsequently these pupils have moved to another school leaving 0 pupils on the school roll.

10.10.4 Despite being part of a shared campus, the roll of St Margaret's decreased and therefore a move to another shared campus would not be beneficial.

10.11 Travelling to Penicuik for school is too far for young children

10.11.1 Not all children in the current St Margaret's RC Primary School catchment area will attend Sacred Heart RC Primary School in Penicuik.

10.11.2 This proposal, if approved, will redistribute the catchment area of St Margaret's RC Primary School to the neighbouring RC primary schools on the basis of the shortest route between the schools based on current bus routes. This approach is proposed as the direct route from Roslin to Bonnyrigg via Roslin Glen is not used as a public transport route.

10.11.3 In addition it is proposed to align the boundaries of St Mary's, St Matthew's and Sacred Heart RC Primary Schools with the catchment boundaries of the non-denominational primary schools in these areas so that all children residing in a non-denominational primary school catchment area will have the same denominational catchment school.

10.11.4 On this basis the catchment of:

- St Mary's RC Primary School will be expanded to include the catchment areas of Bilston, Paradykes and Loanhead;
- Sacred Heart RC Primary School will be expanded to include the catchment area of Roslin;
- St Matthew's RC Primary School will be expanded to include Firth Mains, Firth Road & Rosslynlee

10.11.5 School transport will be provided for all children affected, where there is no safe walking route to school and/or the distance from home to school is more than two miles

10.12 It is a waste of a school building

10.12.1 Although this consultation proposal is a technical closure, the school building itself will not be closing. The future use of the building has yet to be decided and will be subject to a consultation exercise as mentioned in 10.3.1.

10.13 Will there be a cost to the Council ratepayers to come out of the PFI deal?

10.13.1 St Margaret's RC Primary School building is located at the Ramsay Campus, which it shares with Loanhead Primary School and both are part of a PPP contract with Midlothian Schools Limited (MSL).

10.13.2 The school buildings are leased to MSL and the cost of the campus will be repaid over the duration of a 30 year contract period.

10.13.3 There will be no additional cost to the public as a result of this proposal. The continued use of the school building will be subject to a consultation, as mentioned in 10.3.1.

10.14 Could St Margaret's RC Primary School be used as a pilot for a web TV channel like the idea for Dalkeith web TV channel?

10.14.1 As previously stated, although any option for potential future use would have to be carefully considered, with all relevant Council Departments and Stakeholders being fully consulted. However, given the growth across the Learning Estate and the need for additional ASN provision, the Education Service intends to propose that the building be retained for education purposes.

11 Education Scotland Report

11.1 In accordance with the Schools (Consultation) (Scotland) Act 2010, a report was produced by Education Scotland on the educational aspects of the proposal. The purpose of the report is to provide an independent and impartial consideration of Midlothian Council's proposal to discontinue primary education provision at St Margaret's RC Primary School. The Education Scotland report can be read in full at Appendix 6.

11.2 In preparing this report, HM Inspectors undertook the following activities:

- attendance at the public meeting held on 12 October 2021 in connection with the council's proposals;
- consideration of all relevant documentation provided by the council in relation to the proposal, specifically the educational benefits statement and related consultation documents, written and oral submissions from parents and others; and
- online visits to the sites of Loanhead Primary School, Paradykes Primary School, Sacred Heart RC Primary School, St David's RC High School, St Margaret's RC Primary School, St Mary's RC Primary School, St Matthew's RC Primary School, and Treehouse Additional Support Needs provision, including discussion with relevant consultees.

11.3 The Summary section of the Education Scotland report summarises their findings and conclusions as follows:

The council provides a strong case for the proposed discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. If the proposal is implemented, HM Inspectors consider that the proposal has the potential to support the council in providing high-quality denominational provision across six RC primary schools. This would include St Mary's RC Primary School, the neighbouring denominational primary school. St Mary's RC Primary School would provide children from St Margaret's RC Primary School with a wide range of experiences and outcomes linked to Curriculum for Excellence, and increased opportunities for success. It would also help children to develop social relationships more easily with their peers.

Midlothian Council's Response to Education Scotland's Report

11.4 Midlothian Council welcomes the report by Education Scotland which highlights the benefits of the proposal and the Education Authority accepts its findings. Officers from the Education Authority met to consider the content of the report and the action highlighted in the summary.

11.5 In response to the findings contained within the Education Scotland report Midlothian has been asked to address the following points:

In its final report, the council should outline more clearly the considerable work it has engaged in with the Catholic Church to try to remedy the previous staffing challenges at St Margaret's RC Primary School.

11.6 Midlothian Council's committed objective is to stabilise and strengthen RC provision and denominational education within and across the authority.

11.7 There has been a sustained effort to employ a greater number of teachers with the necessary qualifications to teach in our RC primary schools and for teachers working in our RC schools to undertake the Catholic Teaching Certificate and to obtain Church approval to teach Religious Education. For the 2021/22 school year we have set the intake capacity of our RC primary schools taking account of suitably qualified teachers in each school. Taken together these strategies can be seen to be having a positive impact as we anticipate that 67% of the class teachers in our RC primary schools next year will have Church approval the qualification to teach Religious Education.

11.8 Midlothian Council continues to liaise with the Archdiocese in order to promote and maintain denominational teaching opportunities. An Education Support Officer has been appointed who will work to further strengthen the number of suitably qualified teachers and the opportunities to undertake the Catholic Teaching Certificate for those working in denominational schools.

12 Transition Arrangements

12.1 Subject to the conclusion of the Scottish Ministers eight-week call-in period or the notification of the outcome of a call-in, as appropriate, if approved, the discontinuation of primary education provision at St Margaret's RC Primary School and extension to the catchment areas of Sacred Heart RC, St Matthew's RC and St Mary's RC Primary Schools to include St Margaret's RC Primary School catchment area will take effect from 1 July 2022.

12.2 As of August 2021, there were 2 pupils remaining enrolled at St Margaret's RC PS however they left the school in September 2021. Staff have either already transitioned to other schools or will be supported to do so.

13 Alleged Omissions or Inaccuracies

13.1 *Section (10) (3) of the Schools (Consultation) (Scotland) Act 2010* also places a requirement on the Council to provide details of any inaccuracy or omission within the Consultation Proposal Document which has either been identified by the Council or raised by consultees. This section of the 2010 Act also requires the Council to provide a statement on the action taken in respect of the inaccuracy or omission, or, if no action was taken, to state that fact and why.

13.2 There were no inaccuracies or omissions within the Consultation Proposal Document either identified by the Council or raised by consultees during the consultation period.

14 Compliance with Section 9(1) of the Schools (Consultation) (Scotland) Act 2010

14.1 Section 9(1) of the *Schools (Consultation) (Scotland) Act 2010* states that:

After the Education Authority has received Education Scotland's report, the Authority is to review the relevant proposal having regard (in particular) to:

(i) written representations received by the Authority (from any person) during the consultation period,

(ii) oral representations made to it (by any person) at the public meeting,

(iii) Education Scotland's report.

14.2 Following receipt of the Education Scotland report, 71 questionnaire responses received during the consultation period and consideration of oral representations made at a public meeting held during the consultation period, officers reviewed the proposal.

14.3 The feedback from the consultation was considered by relevant officers within the Council's Children, Young People's and Partnership Directorate. Data and factual information was checked where required and advice and input was sought from other Council Services where needed to consider the issues raised. This ensured that the Council met the requirements of sections 9(1), 12 and 13(3) (b) of the 2010 Act.

15 Legal Issues

15.1 The Council has complied in full with the requirements of the *Schools (Consultation) (Scotland) Act 2010* throughout this statutory consultation.

15.2 The Council is mindful of its duties in respect of equality under the *Equality Act 2010*, the *Public Sector Equality Duty 2011*, and the *Fairer Scotland Duty* (Part one of the Equality Act). The Equality Impact Assessment identified that the proposal, if implemented, will result in children travelling further to attend their denominational catchment primary school. This will be mitigated by providing school transport for affected pupils where there is no safe walking route to school and/or the distance from home to school is more than two miles. In terms of Socio Economic Impact, the assessment identified no significant impact from the implementation of this proposal.

15.3 Under the terms of the *Schools (Scotland) (Consultation) Act 2010*, it is a legal requirement that the Council should not reach any formal decision without having reviewed the relevant proposal having regard, in particular, to:

a) relevant written representations received from any person during the consultation period;
b) oral representation made to it by any person at the public meetings held on ;
c) the Education Scotland report;
d) preparing a Consultation Proposal; and
e) waiting until a period of three weeks starting on the day on which this Consultation Proposal is published in electronic and printed form has expired.

15.4 As it is the intention that this Consultation Proposal should be published, both electronically and in paper form, if required, on 24 January 2022, this meets the statutory requirement to publish this report for more than three weeks before consideration of the proposal by Midlothian Council.

16 Scottish Ministers Call-in Closure Procedure

16.1 At the end of the consultation process, Section 15 of the *Schools (Consultation) (Scotland) Act 2010* enables Scottish Ministers to call-in a decision to implement the proposed discontinuation of primary education provision at St Margaret's RC Primary School.

16.2 If the Council's final decision is to implement the proposal, it will require to notify the Scottish Ministers of that decision, and provide them with a copy of the proposal document and Consultation Proposal. This must be done within six working days of that decision. The Scottish Ministers have an eight week period from the date of that final decision to decide if they will call-in the proposal.

16.3 Within the first three weeks of that eight week period, the Scottish Ministers will take account of any relevant representations made to them by any person. Until the outcome of the eight week call-in process is known, the Council cannot proceed to implement the proposal.

16.4 If the Scottish Ministers call-in the proposal, they must refer the proposal to the Convener of the School Closure Review Panels who may refuse to consent to the proposal or grant their consent to the proposal subject to conditions or unconditionally.

16.5 Recipients of this Consultation Proposal, and other readers, should note that the legislation allows for any person to make representations to Scottish Ministers within three weeks of the Council taking their final decision to implement a closure proposal.

16.6 Midlothian Council will take the decision on whether or not to implement the discontinuation of education provision at St Margaret's RC Primary School at its meeting on 15 February 2022. If the decision is taken to implement, any representations to Scottish Ministers, therefore, in this context need to be with the Ministers within three weeks of this date. Therefore, any representations must be made to Scottish Ministers by 8 March 2022.

16.7 Anyone wishing to make representation to Scottish Ministers during the three week period referred to above should do so by email to schoolclosure@gov.scot or in writing to:

School Infrastructure Unit
The Scottish Government
Area 2B (North)
Victoria Quay
EDINBURGH
EH6 6QQ

17 Personnel Implications

14.1 If this proposal is implemented, the staff in St Margaret's RC Primary School will all be offered positions in other schools.

14.2 The Council does not envisage any adverse effects from implementation of the proposal in respect of staffing. Should issues arise however, these will be mitigated through the Council's Education Leadership Team support structure.

18 Environmental Issues

18.1 There are no environmental issues arising from this proposal.

19 Conclusions

19.1 On the basis of the feedback received and taking account of the educational and social benefits of the proposal, it is concluded that:

a) education provision at St Margaret's RC Primary School be discontinued with effect from 1 July 2022 and the catchment areas of St Mary's, St Matthew's and Sacred Heart RC Primary Schools be extended to include the current catchment area of St Margaret's RC Primary School;
b) the proposal will bring educational benefits to the present and future users of the affected schools and assist in ensuring that the Education budget is more sustainable into the future, as the costs per pupil in under-occupied schools are excessively high. This is in line with our duty to secure best value;
c) as part of the Council's Asset Management Strategy, the future use of the building would require to be assessed. A few potential options may be that it is required to satisfy the demand for Additional Support Needs pupils or retained to meet capacity pressures due to the region's growth. These and any other potential options will have to be considered;
d) overall there are no environmental impacts as a result of this proposal; and
e) overall there are strong educational arguments in favour of this proposal.

20 Recommendations

20.1 Following the conclusion of the Scottish Ministers eight-week call-in period or the notification of the outcome of a call-in, as appropriate, it is recommended that the Council approves the following:

- The provision of primary education at St Margaret's RC Primary School will be discontinued from 1 July 2022
- The catchment areas of St Mary's, St Matthew's and Sacred Heart RC Primary Schools will be extended to include the St Margaret's catchment area
- Remaining pupils will be allocated a place at St Mary's RC Primary School or they can choose to attend their non-denominational catchment primary school.
- School transport will be provided for all children affected, where there is no safe walking route to school and/or the distance from home to school is more than two miles
- Provision of Early Learning and Childcare will continue as per current arrangements

Appendix 1: Comments from Questionnaire Responses

Of the 71 questionnaire responses, 54 contained comments of which 22 declined permission to make their comments publicly available. However, their representations have been taken account of and responded to in Section 10 of the Consultation Proposal. The summary of comments below, were made from the remaining 21 responses who did not choose the option to decline permission to make their comments publicly available.

Responses from those in support of the proposal to discontinue primary education provision at St Margaret's RC Primary School with effect from 1 July 2022.

The comments included with those responses received that were in favour of the proposal are shown below, comments are redacted to avoid the identification of individuals:

Comments
The roll was not dominated by Catholic families, nor were many of them from within the Loanhead catchment. Closing and merging with other religious schools seems sensible. However why is this consultation still in progress when the entire school space has been reallocated and is already being used by two other units. I question why a consultation on how the space should be used was not done? No consideration has been given to the staff, pupils and families of LPS and the Loanhead community.
It is ridiculous to run two schools, paying two lots of staff purely to separate children on the grounds of religion. In my view children should be educated together if we want a tolerant society without religious bigotry.
Classroom space could be better used by Loanhead primary.
We need to rid ourselves of these state funded religious schools. Become a more inclusive society. This would be a good step to start that.

Responses from those who are not in favour of the proposal to proposal to discontinue primary education provision at St Margaret's RC Primary School with effect from 1 July 2022.

The comments made in the responses that were not in favour of the proposal are shown below, comments are redacted to avoid the identification of individuals:

Comments
St Margaret's was a great primary school, my older daughter attended from p1-p3, she is now in p5 at St Mary's. When the consultation period started 3+ years ago it was obvious he writing was on the wall. We kept our daughter in the school until the end of p3 while the stampede commenced to move to different school. When classes became so small and there was no option but to create composites covering more and more classes, the end was a certainty. We moved our daughter to St Mary's and have now also moved house to Bonnyrigg. The consultation process has been a pointless exercise as it was obvious from the outset what would happen. It's a real shame as St Margaret's was a great little school. The money wasted on this exercise could have been better spent on the schools themselves if the process hadn't been dragged out for years.

It is important to maintain schools that connect to the community and the church. The style of teaching and the values that are taught within a RC School are invaluable. It also gives choice and should be inclusive to children of different religions if they wish to attend.
I think it's terrible that this is happening, my wife and children went to the old St. Margaret's school and I was chair of school council. I don't think enough encouragement has come from the parish of St. Margaret's which has seen the decline in attendance at the school.
St Margaret's was a wonderful school before it became a launch pad for staff. My children had been let down in other schools and achieved so much in their time at St Margaret's before [redacted] moved on. Since then the staff turn over became unmanageable and people started to remove pupils to give young people stability in their education. Finding Catholic schools is important and the loss of these in Midlothian would be very disappointing
This is putting more pressure on surrounding areas such as Bonnyrigg where schools are already at capacity. Instead of closing it completely why can't it be a shared campus such as St David's and Dalkeith high schools?
What an utter waste of a beautiful school building. The other two local primary schools are at bursting point and with all the extra housing being built in Loanhead I feel that keeping St Margaret's open would be beneficial to pupils moving into these houses
My children attended st Margaret's and feel that the consultation letter put out to parents 2 years ago left everyone so uncertain about the future of st Margaret's that there was no other option than to leave and give the children a stress free education. In the letter only one option left st Margaret's open and that was the status quo. In a cost saving exercise, the status quo was never going to be the viable choice.
The school should never have been closed, I had to move my daughters to Paradykes primary school and I believe they benefitted so much from the small Classes in st Margaret's. The other 2 schools in loanhead will soon be full due to the amount of houses being built in the area.
This school has been part of our community for ever. My whole family attended here and have had wonderful experiences they will never forget! And their time at st.Margaret's formed them as the people they are today. Yes the school was never huge, but that's what I needed and a lot of the other children did too. The school cared about every child individually. They provided great education about christianity on top of the curriculum-based subjects but also provided a safe space and encouraged learning of other religions, and backgrounds. Their special needs care was outstanding, everyone was given the specific support they needed at the same time was treated the same. I think this school has been treated unfairly with long running threats of closure. Midlothian council got parents scared it would close and they had to get there child a space at their second preference school before there was no room. Midlothian council have created this situation themselves to justify the closure. This school is amazing and would be a great loss to all the children and family's of this area, it just needs a little belief and backing from its own council to make it shine again. If this school is closed the whole community will feel it's loss.
Due to my qualifications in HNC childhood practice and dream of starting my own business I think St Margaret's RC Primary school would be a great place for afternoon school club which could include specific activities for children in certain subjects they are interested to also could give an awesome opportunity for me to organize classes for foreign children who could practice their mother languages in speaking, reading and writing. I strongly believe that St Margaret's school would be perfect place to give new opportunities for so many children and teachers.

The only reason the role fell is because you said it would close and parents had no choice but to move their children. Putting specialist provisions in the school instead is a joke to be honest
Loanhead has 2 schools now running at max capacity. Paradykes primary has 13 classes and only 7 years. Staff are over worked and children are loosing out on proper education and being moved about classes every year. Children are suffering at the fact they have spent a whole term making friends to find out the next term they are moving class. Loanhead has a growing population with more housing developments being built every other week. To cope with the capacity we need another school that isn't necessarily religious. Expand Loanhead primary or use the building for another primary that Loanhead could benefit from.
I think it's truly disgusting to close a good school when the schools in the area are bursting at the seems and they are having to build more schools. My daughter failed to get a nursery place at our local school because it was full and yet the council wants to close schools. This school has no pupils because parents were forced to move their children in order to achieve continuity as this was threatened with closure. Many did not want to leave. Tell them its staying open and they might come back.
This is another example of schools being run down in Midlothian with scaremongering by MC to reduce school numbers. The same happened in Glencorse primary. We are the fastest growing council in terms of number of new homes being built and do not have capacity at current schools for all new homes. Keep this open and invite parents from all local areas to attend or convert to non denominational school. We cannot keep closing schools while allowing more homes to be built
My daughter went to St Margaret's and it was a fantastic school.Small classes meant all children felt included whatever their level. With it being a smaller school all the children knew each other so social aspect was fantastic. St Margaret's will be a big loss to the community
Loanhead is up and coming with all new houses being build in and surrounding. If a child is Roman Catholic from Loanhead they are then being discriminated for their religion in a way as having to travel else where. St. Margarets primary should stay open and given the chance and promotion it deserves

Appendix 2: Pupil Questionnaire Responses

Sacred Heart RC Primary School Pupil Questionnaire Response

St Margaret's RC PS Consultation Questions

1. **What do you think about the proposal to close St Margaret's RC Primary School?**

   It's really sad, it makes me feel upset.

2. **If you think it's a good idea, tell us why?**

   No pupil felt it was a good idea

3. **If you don't think it's a good idea, tell us why?**

   It's hard for us to join a new school and make new friends. It was a bit scary having to get to know lots of new people. It's hard for parents too. The teachers at St Margaret's knew us well and now new teachers need to get to know us.

4. **What did you like about being a pupil at St Margaret's RC Primary School?**

   My teachers were amazing. Our classes were smaller so we learned things faster. We got help more quickly because the classes were smaller so we learned more. Less people made me feel less nervous. There was lots of space to play. St Margaret's had their very own bit of the playground. St Margaret's did good school dinners. There were more things to do during wet play – there was a whole section of things we could play with if we couldn't go out to the playground. We had a school library and a science room. The teachers were nice.

5. **Can you tell us what you like about the school you are now in?**

   There are more people in my class so it's easier to make friends and have people to play with.

6. **Is there anything else you would like to say about St Margaret's or your new school?**

   We loved St Margaret's and would keep it open if we could. It would be great for new people joining school because it was such a good school and helped everybody.

Loanhead Primary School Pupil Questionnaire Response

St Margaret's RC PS Consultation Questions

1. **What do you think about the proposal to close St Margaret's RC Primary School?**

   Don't think this was right. People got scared that it was going to close down and they left.

2. **If you think it's a good idea, tell us why?**

n/a

3. **If you don't think it's a good idea, tell us why?**

   People didn't want to leave and fine with it being there. It was a really nice school. A lot of people had friends.

4. **What did you like about being a pupil at St Margaret's RC Primary School?**

   The teachers, the people, friends, liked being the only girl in my year.

5. **Can you tell us what you like about the school you are now in?**

   The work is easy and lots more friends, like more girls than boys in class. Lots more new friends, teacher is funny. More people means more friends. Get to be with my nursery friends.

6. **Is there anything else you would like to say about St Margaret's or your new school?**

   Loanhead is better.

Stobhill Primary School Pupil Questionnaire Response

St Margaret's RC PS Consultation Questions

1. **What do you think about the proposal to close St Margaret's RC Primary School?**

   Wee bit sad because I miss it and miss my friends there too. It is a good idea because there are no pupils there.

2. **If you think it's a good idea, tell us why?**

   No pupils there now so not needed as a school any more.

3. **If you don't think it's a good idea, tell us why?**

   Would have liked to stay there but so few pupils so I had to leave. It was a really good school and I am sad to see it go.

4. **What did you like about being a pupil at St Margaret's RC Primary School?**

   Friends were nice to me, respectful people and people who followed the rules. Best playground and lovely pupils

5. **Can you tell us what you like about the school you are now in?**

   More people and everyone is kind and follows the rules. Lot of people to make friends with and most are nice and friendly and there is more to do here

6. **Is there anything else you would like to say about St Margaret's or your new school?**

   St Margaret's was the best school in the world and I had to move because I was only one of 2/3 pupils left in the school. As there were so few pupils there and no other p7 to talk to it was lonely. It was sad that I had no choice in moving schools really if I wanted peers

Appendix 3: Treehouses ASN Staff and Pupil Questionnaire Responses

Pupil Response

1. **What do you like about your school building?**

   It has good heating.
   I like the teachers/staff.
   I like the gym hall and the MUGA.
   The playground is good.
   I like the sliding doors and the big spaces (atriums).
   I like the doors in the classrooms that go straight outside.

2. **Is there anything you dislike about your school building?**

   I don't like the fact there are windows into the classrooms from the atrium so that people can see in.
   The doors should be thicker.

3. **Is there anything you would change about your school building?**

   I would like a disco ball.
   I would like more stuff in the playground like a swing and a trampoline.
   I would like a seesaw, roundabout and a slide in the playground.
   I would like a swing.
   Staff suggested 'Loose Parts Play'.

4. **Is there anything else you would like to add?**

   I would like to be taller.
   A tent for each person.
   Free Fruit Shoots.
   Ice cream van.

Staff Responses

1. **What do you like about your school building?**

   The building is bright and airy and welcoming to be in. There are benefits to being based in a space which is large enough to accommodate teaching facilities for colleagues who are class-based but also office and work-space areas for colleagues who work peripatetically around the Authority and require 'base' facilities.

2. **Is there anything you dislike about your school building?**

   There is nothing that I dislike about the building.

3. **Is there anything you would change about your school building?**

   There is nothing that I would change about the school building.

4. **Is there anything else you would like to add?**

   n/a

1. **What do you like about your school building?**

   It's a fairly new building

2. **Is there anything you dislike about your school building?**

   I feel the part of the school we are working in is not secure enough

3. **Is there anything you would change about your school building?**

   To make it more secure

4. **Is there anything else you would like to add?**

   n/a

Appendix 4: Response from the Archdiocese of St Andrews & Edinburgh

Response of the Archdiocese of St. Andrews & Edinburgh to the closure of St. Margaret's Primary

To whom it may concern:

The Archdiocese believes that St Margaret's Primary, Loanhead, has always served the local community commendably and regrets its planned closure. In principle, where there is a need for Catholic schooling and a desire by the local Catholic community to be served in that way, the Archdiocese continues to expect that all local councils will respect the lawful right of the Catholic community to have schools for its children. The Archdiocese would, therefore, prefer that all Catholic Schools in the Midlothian Council area be kept open and viable as a result of its denominational review.

Having said that, in the circumstances of the review, the Archdiocese acknowledges that there are no pupils currently attending St. Margaret's Primary. Therefore, it would appear that the school is no longer viable under these circumstances.

Finally, the Archdiocese will always be willing to engage in discussions regarding the possibility of keeping St. Margaret's open, actively serving the community of Loanhead.

Sincerely yours,

Fr Robert Afayori (PhD)
VE for Catholic Education
Archdiocese of St Andrews & Edinburgh

Appendix 5: Frequently Asked Questions

Midlothian Council - Children, Young People and Partnerships Directorate

Statutory School Consultation – Discontinuation of Primary Education Provision at St Margaret's RC Primary School with effect from 1st July 2022.

Frequently Asked Questions

1. **What is the main purpose of the proposal?**

   The main purpose of the proposal is to enter into formal consultation to discontinue Primary Education Provision at St Margaret's Roman Catholic Primary School from 1st July 2022. We are also proposing that the catchment areas of St Mary's, St Matthew's and Sacred Heart RC Primary Schools be extended to include the current catchment area of St Margaret's RC Primary School. We must consult in line with the statutory duties set out in the Schools (Consultation) (Scotland) Act 2010.

2. **Why are you considering closing a school now with all the house building and growth?**

   Midlothian, as one of the fastest growing local authorities, has rising school rolls across both primary and secondary schools and our Roman Catholic schools play an important role in providing capacity, particularly in areas of significant pressure such as Bonnyrigg, Dalkeith, Gorebridge and Mayfield. To date there are no Primary 1 pupils enrolled at St Margaret's for the coming school year. The St Margaret's RC PS school roll as at August 2021 was 2 pupils. As at the 14th September 2021 there were 0 pupils enrolled at the school.

3. **How will future catchment areas be affected?**
   We are also proposing that the catchment areas of St Mary's, St Matthew's and Sacred Heart RC Primary Schools be extended to include the current catchment area of St Margaret's RC Primary School.

4. **Who will make the final decision about the proposal and why is there only one option to close as opposed to increasing the size of the school roll through effective marketing?**

   While it is Midlothian Council's Children, Young People and Partnership Directorate that is conducting the consultation, it is for the elected councillors on Midlothian Council to decide following the conclusion of the statutory consultation period. They will be asked at a meeting of the full Midlothian Council to adopt the proposal, withdraw it or seek to consult on another proposal.

   The statutory consultation is designed to encourage maximum participation. This will allow the views of all members of the community to be included in the Consultation Report which will be used by councillors to make an informed decision.

   The *Education (Scotland) Act 1980* places a legislative duty on the Council to ensure the adequate and efficient provision of school education across its area and it must consult on certain changes in such arrangements before it can commit to delivering them. The Schools (Consultation) (Scotland) Act 2010 sets out the statutory consultation that must be undertaken when proposing a permanent change to any of our schools.

The principle of the Act is *“... to provide strong, accountable statutory consultation practices and procedures that local authorities must apply to their handling of all proposals for school closures and other major changes to schools.”*

The statutory consultation process must be based on a proposal that is viable and deliverable and represents the very best educational outcomes for its young people.

From previous experience, it is not believed that the school roll for St Margaret’s will increase enough to support the best educational outcomes for its children.

5. Why are the cost savings not taken into account as part of the decision making process?

The Act indicates we can provide information on costs but decision-making should be as described above, and based on what supports the best educational outcomes for children.

6. What will happen to the staff currently in the school?

Staff will be fully consulted and supported to consider employment in alternative educational settings within Midlothian.

7. What will happen to the school building and the land if this proposal goes ahead? Will it be sold or used for an alternative council purpose? Could it be deemed suitable for asset transfer to the community?

The Council has an agreed process for this. The Directorate that operates the premises will consider if they require the building or land for an alternative purpose, if they do not, they declare it surplus and other Directorates within the Council can put together a business case for its use. If the Council has no purposeful use for it, it can be considered for sale.

As St. Margaret’s RC PS is on a shared campus with Loanhead PS, any option for potential future use would have to be carefully considered with all relevant Council Departments and Stakeholders being fully consulted.

8. Will offering to transport pupils to either St Mary’s RC PS or another school in the catchment increase our impact on Climate Change?

School transport will be provided for all children affected, where there is no safe walking route to school and/or the distance from home to school is more than two miles, therefore not everyone may need transport. If the proposal goes ahead we are committed to ensuring safe routes to school, and to addressing the carbon neutral plan.

9. How will children get the right support they need in an increased class size?

Children moving school will be supported with a tailored transition plan to support them in the initial transition but also in their ongoing education. This will take into account: good practice, educational principles, managing change, small group work, learning support needs and confidence levels.

10. The council suggested that St Margaret’s might be closed and this is why the roll has fallen.

In 2019 an informal pre-consultation was held on the future of denominational school provision across the whole of Midlothian. The pre-consultation was held to find out what stakeholders and the community thought. Information about a range of considerations was presented along with 8 discussion models. These models ranging from retaining the status quo with 7 primary and one secondary schools, to one all-through (combined primary and secondary) school. We took into account what we heard during this pre-consultation along with other factors, including looking at the pupil roll at each of the schools, when deciding the model to propose and carry out formal consultation on. Following the pre-consultation the rolls of the other six primary schools remained stable. There is more information on the pre-consultation, the feedback received and the decision on the proposed model in the Denominational Review paper to the meeting of Midlothian Council on 29 June 2021.

Midlothian Council > Meetings (cmis.uk.com)

Appendix 6: Education Scotland Report

Report by Education Scotland addressing educational aspects of the proposal by Midlothian Council to discontinue primary education provision at St Margaret's RC Primary School with effect from 1 July 2022.

1. Introduction

1.1 This report from Education Scotland has been prepared by Her Majesty's Inspectors of Education (HM Inspectors) in accordance with the terms of the Schools (Consultation) (Scotland) Act 2010 ("the 2010 Act"). The purpose of the report is to provide an independent and impartial consideration of Midlothian Council's proposal to discontinue primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. Section 2 of the report sets out brief details of the consultation process. Section 3 of the report sets out HM Inspectors' consideration of the educational aspects of the proposal, including significant views expressed by consultees. Section 4 summarises HM Inspectors' overall view of the proposal. Upon receipt of this report, the Act requires the council to consider it and then prepare its final consultation report. The council's final consultation report should include this report and must contain an explanation of how, in finalising the proposal, it has reviewed the initial proposal, including a summary of points raised during the consultation process and the council's response to them. The council has to publish its final consultation report three weeks before it takes its final decision. Where a council is proposing to close a school, it needs to follow all statutory obligations set out in the 2010 Act, including notifying Ministers within six working days of making its final decision and explaining to consultees the opportunity they have to make representations to Ministers.

1.2 HM Inspectors considered:

- the likely effects of the proposal for children and young people of the school; any other users; children likely to become pupils within two years of the date of publication of the proposal paper; and other children and young people in the council area;
- any other likely effects of the proposal;
- how the council intends to minimise or avoid any adverse effects that may arise from the proposal; and
- the educational benefits the council believes will result from implementation of the proposal, and the council's reasons for coming to these beliefs.

1.3 In preparing this report, HM Inspectors undertook the following activities:

- attendance at the public meeting held on 12 October 2021 in connection with the council's proposals;
- consideration of all relevant documentation provided by the council in relation to the proposal, specifically the educational benefits statement and related consultation documents, written and oral submissions from parents and others; and
- online visits to the sites of Loanhead Primary School, Paradykes Primary School, Sacred Heart RC Primary School, St David's RC High School, St Margaret's RC Primary School, St Mary's RC Primary School, St Matthew's RC Primary School, and Treehouse Additional Support Needs provision, including discussion with relevant consultees.

2. Consultation process

2.1 Midlothian Council undertook the consultation on its proposal(s) with reference to the Schools (Consultation) (Scotland) Act 2010.

2.2 Midlothian Council undertook a statutory consultation, which ran from 28 September until 16 November 2021. Information was provided to stakeholders including parents of children attending St Margaret's RC Primary School, St Mary's RC Primary School, St Matthew's RC Primary School, Sacred Heart RC Primary School, and St David's RC High School. Details of the consultation were published in the local newspaper and on the Midlothian Council website. Details were also available at Loanhead Library. A public meeting was held on 12 October 2021 and a virtual public meeting was scheduled for 13 October 2021. There were no attendees at the public meeting and no stakeholders indicated that they wished to join the virtual meeting. The council received 68 written responses to the proposal. Thirty responses approved of the proposal and 38 responses objected to it.

2.3 The council proposes to discontinue primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. This is due primarily to the school's roll declining considerably over recent years. Only two pupils attended St Margaret's RC Primary School at the start of the 2021-22 school year. Subsequently, these pupils moved to another school.

2.4 The council has experienced considerable recruitment challenges at St Margaret's RC Primary School over recent years. These have included being unable to recruit a Roman Catholic (RC) headteacher. The council has worked well with representatives from the RC Church to try to ensure appropriate staffing in the school. However, it has had limited success with this. Midlothian Council undertook a review of its denominational school provision in 2019, prompted by a national shortfall in the availability of teachers with the necessary approval to teach in RC schools. The review led to the council committing to maintain six RC primary schools and one RC secondary school in Midlothian.

2.5 Subject to the outcomes of the consultation exercise, the council proposes to extend the catchment areas of St Mary's RC Primary School, St Matthew's RC Primary School and Sacred Heart RC Primary School to include the St Margaret's RC Primary catchment area. Pupils at St Margaret's RC Primary School, of which there are currently none, would be allocated a place at St Mary's RC Primary School or be able to attend their non-denominational catchment primary school. St Mary's RC Primary School and the non-denominational primary schools in the catchment are suitably equipped, and situated within 4.2 miles of St Margaret's RC Primary School. The council would provide school transport for children without a safe walking route to school and children who would need to travel more than two miles from home to school.

3. Educational aspects of proposal

3.1 The council believes rightly that there would be a number of potential educational benefits for children should the proposal be accepted. Children from St Margaret's RC Primary School would be able to experience a broader range of learning experiences, in which they could interact with a larger group of peers at their age and stage. Children would also be able to take part in team activities, move with their peers to secondary school and benefit from daily interactions with a larger denominational peer group. This is likely to help them develop important friendships, improve their confidence and wellbeing, and nurture their faith development.

3.2 Almost all stakeholders who met with HM Inspectors said they did not have strong feelings about the proposal. Most stakeholders understand the council's rationale for proposing to discontinue primary education provision at St Margaret's RC Primary School due to it having no pupils currently. A few stakeholders expressed sadness about the proposed closure. They noted that, if the closure goes ahead, they would want to celebrate the previous successes of St Margaret's RC Primary School. A few children said that, although they enjoyed their time at St Margaret's RC Primary School, they are happy and well supported in the schools they now attend. One parent expressed discontent about the proposed closure, expressing that the council could have tried different strategies to maintain or strengthen the school roll.

3.3 Many parents praised St Margaret's RC Primary School in their written responses to the council. They said that it catered well for children with additional support needs due to its size, and that its small class sizes were beneficial. Parents were mixed in their views about pupil experiences in composite classes at St Margaret's RC Primary School. A few parents indicated that they had moved their children from St Margaret's RC Primary School because they were afraid of the school closing. Other parents highlighted the staffing challenges faced by the school.

3.4 The Archdiocese of Edinburgh expressed regret on behalf of the Catholic Church that the council proposes to close St Margaret's RC Primary School. The Archdiocese would prefer all Catholic schools in Midlothian to be kept open and viable. However, church representatives acknowledge that no pupils attend St Margaret's currently and, as a result, the school may no longer be viable.

4. Summary

4.1 The council provides a strong case for the proposed discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. If the proposal is implemented, HM Inspectors consider that the proposal has the potential to support the council in providing high-quality denominational provision across six RC primary schools. This would include St Mary's RC Primary School, the neighbouring denominational primary school. St Mary's RC Primary School would provide children from St Margaret's RC Primary School with a wide range of experiences and outcomes linked to Curriculum for Excellence, and increased opportunities for success. It would also help children to develop social relationships more easily with their peers.

4.2 In its final report, the council should outline more clearly the considerable work it has engaged in with the Catholic Church to try to remedy the previous staffing challenges at St Margaret's RC Primary School.

HM Inspectors
November 2021

Schools (Consultation) (Scotland) Act 2010

Report by Education Scotland addressing educational aspects of the proposal by Midlothian Council to discontinue primary education provision at St Margaret's RC Primary School with effect from 1 July 2022.

November 2021

1. Introduction

1.1 This report from Education Scotland has been prepared by Her Majesty's Inspectors of Education (HM Inspectors) in accordance with the terms of the Schools (Consultation) (Scotland) Act 2010 ("the 2010 Act"). The purpose of the report is to provide an independent and impartial consideration of Midlothian Council's proposal to discontinue primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. Section 2 of the report sets out brief details of the consultation process. Section 3 of the report sets out HM Inspectors' consideration of the educational aspects of the proposal, including significant views expressed by consultees. Section 4 summarises HM Inspectors' overall view of the proposal. Upon receipt of this report, the Act requires the council to consider it and then prepare its final consultation report. The council's final consultation report should include this report and must contain an explanation of how, in finalising the proposal, it has reviewed the initial proposal, including a summary of points raised during the consultation process and the council's response to them. The council has to publish its final consultation report three weeks before it takes its final decision. Where a council is proposing to close a school, it needs to follow all statutory obligations set out in the 2010 Act, including notifying Ministers within six working days of making its final decision and explaining to consultees the opportunity they have to make representations to Ministers.

1.2 HM Inspectors considered:

- the likely effects of the proposal for children and young people of the school; any other users; children likely to become pupils within two years of the date of publication of the proposal paper; and other children and young people in the council area;
- any other likely effects of the proposal;
- how the council intends to minimise or avoid any adverse effects that may arise from the proposal; and
- the educational benefits the council believes will result from implementation of the proposal, and the council's reasons for coming to these beliefs.

1.3 In preparing this report, HM Inspectors undertook the following activities:

- attendance at the public meeting held on 12 October 2021 in connection with the council's proposals;
- consideration of all relevant documentation provided by the council in relation to the proposal, specifically the educational benefits statement and related consultation documents, written and oral submissions from parents and others; and
- online visits to the sites of Loanhead Primary School, Paradykes Primary School, Sacred Heart RC Primary School, St David's RC High School, St Margaret's RC Primary School, St Mary's RC Primary School, St Matthew's RC Primary School, and Treehouse Additional Support Needs provision, including discussion with relevant consultees.

2. Consultation process

2.1 Midlothian Council undertook the consultation on its proposal(s) with reference to the Schools (Consultation) (Scotland) Act 2010.

2.2 Midlothian Council undertook a statutory consultation, which ran from 28 September until 16 November 2021. Information was provided to stakeholders including parents of children attending St Margaret's RC Primary School, St Mary's RC Primary School, St Matthew's RC Primary School, Sacred Heart RC Primary School, and St David's RC High School. Details of the consultation were published in the local newspaper and on the Midlothian Council website. Details were also available at Loanhead Library. A public meeting was held on 12 October 2021 and a virtual public meeting was scheduled for 13 October 2021. There were no attendees at the public meeting and no stakeholders indicated that they wished to join the virtual meeting. The council received 68 written responses to the proposal. Thirty responses approved of the proposal and 38 responses objected to it.

2.3 The council proposes to discontinue primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. This is due primarily to the school's roll declining considerably over recent years. Only two pupils attended St Margaret's RC Primary School at the start of the 2021-22 school year. Subsequently, these pupils moved to another school.

2.4 The council has experienced considerable recruitment challenges at St Margaret's RC Primary School over recent years. These have included being unable to recruit a Roman Catholic (RC) headteacher. The council has worked well with representatives from the RC Church to try to ensure appropriate staffing in the school. However, it has had limited success with this. Midlothian Council undertook a review of its denominational school provision in 2019, prompted by a national shortfall in the availability of teachers with the necessary approval to teach in RC schools. The review led to the council committing to maintain six RC primary schools and one RC secondary school in Midlothian.

2.5 Subject to the outcomes of the consultation exercise, the council proposes to extend the catchment areas of St Mary's RC Primary School, St Matthew's RC Primary School and Sacred Heart RC Primary School to include the St Margaret's RC Primary catchment area. Pupils at St Margaret's RC Primary School, of which there are currently none, would be allocated a place at St Mary's RC Primary School or be able to attend their non-denominational catchment primary school. St Mary's RC Primary School and the non-denominational primary schools in the catchment are suitably equipped, and situated within 4.2 miles of St Margaret's RC Primary School. The council would provide school transport for children without a safe walking route to school and children who would need to travel more than two miles from home to school.

3. Educational aspects of proposal

3.1 The council believes rightly that there would be a number of potential educational benefits for children should the proposal be accepted. Children from St Margaret's RC Primary School would be able to experience a broader range of learning experiences, in which they could interact with a larger group of peers at their age and stage. Children would also be able to take part in team activities, move with their peers to secondary school and benefit from daily interactions with a larger denominational peer group. This is likely to help them develop important friendships, improve their confidence and wellbeing, and nurture their faith development.

3.2 Almost all stakeholders who met with HM Inspectors said they did not have strong feelings about the proposal. Most stakeholders understand the council's rationale for proposing to discontinue primary education provision at St Margaret's RC Primary School due to it having no pupils currently. A few stakeholders expressed sadness about the proposed closure. They noted that, if the closure goes ahead, they would want to celebrate the previous successes of St Margaret's RC Primary School. A few children said that, although they enjoyed their time at St Margaret's RC Primary School, they are happy and well supported in the schools they now attend. One parent expressed discontent about the proposed closure, expressing that the council could have tried different strategies to maintain or strengthen the school roll.

3.3 Many parents praised St Margaret's RC Primary School in their written responses to the council. They said that it catered well for children with additional support needs due to its size, and that its small class sizes were beneficial. Parents were mixed in their views about pupil experiences in composite classes at St Margaret's RC Primary School. A few parents indicated that they had moved their children from St Margaret's RC Primary School because they were afraid of the school closing. Other parents highlighted the staffing challenges faced by the school.

3.4 The Archdiocese of Edinburgh expressed regret on behalf of the Catholic Church that the council proposes to close St Margaret's RC Primary School. The Archdiocese would prefer all Catholic schools in Midlothian to be kept open and viable. However, church representatives acknowledge that no pupils attend St Margaret's currently and, as a result, the school may no longer be viable.

4. Summary

4.1 The council provides a strong case for the proposed discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022. If the proposal is implemented, HM Inspectors consider that the proposal has the potential to support the council in providing high-quality denominational provision across six RC primary schools. This would include St Mary's RC Primary School, the neighbouring denominational primary school. St Mary's RC Primary School would provide children from St Margaret's RC Primary School with a wide range of experiences and outcomes linked to Curriculum for Excellence, and increased opportunities for success. It would also help children to develop social relationships more easily with their peers.

4.2 In its final report, the council should outline more clearly the considerable work it has engaged in with the Catholic Church to try to remedy the previous staffing challenges at St Margaret's RC Primary School.

HM Inspectors
November 2021

Midlothian

Midlothian Council

Children, Young People and Partnerships Directorate

Statutory School Consultation

THIS IS A PROPOSAL DOCUMENT

This consultation is on the following proposal:

Proposed discontinuation of primary education provision at St Margaret's RC Primary School with effect from 1 July 2022.

Subject to the outcome of this consultation exercise:

- The provision of primary education at St Margaret's RC Primary School will be discontinued from 1 July 2022
- The catchment areas of St Mary's, St Matthew's and Sacred Heart RC Primary Schools will be extended to include the St Margaret's catchment area
- Remaining pupils will be allocated a place at St Mary's RC Primary School or they can choose to attend their non-denominational catchment primary school.
- School transport will be provided for all children affected, where there is no safe walking route to school and/or the distance from home to school is more than two miles
- Provision of Early Learning and Childcare will continue as per current arrangements

The following schools are directly affected by this proposal:

- St Margaret's RC Primary School
- St Mary's RC Primary School
- St Matthew's RC Primary School
- Sacred Heart RC Primary School

The following schools are indirectly affected by the proposal:

- St David's RC High School
- Loanhead Primary School

In accordance with the *Schools (Consultation) (Scotland) Act 2010*, Midlothian Council wants to hear your views on the proposal to discontinue primary education provision at St Margaret's RC Primary School with effect from 1 July 2022.

Within this consultation paper you will find information about the proposal, the reasons behind it, its likely impact and how you can tell us what you think about it. A short questionnaire is included within the proposal.

Midlothian Council hopes that as many of you as possible will complete the questionnaire and would like to thank you in advance for taking the time to share your views as they are extremely important to us.

We would like to be as open as possible with the results of this consultation so please note that your response will be anonymised and made public at the end of the consultation period. You may wish to ensure that you do not give any identifying details in your response. If you don't wish your response to be made public, you can specify this in the questionnaire and within any written response.

Distribution

A copy of this document is available on the Midlothian Council website: www.midlothian.gov.uk/stmargarets

A summary of this document will be provided to:
- The Parent Councils of the affected schools
- The parents of the pupils at the affected schools
- Parents of children expected to attend an affected school within 2 years of the date of publication of this Proposal Document
- The pupils, deemed to be of suitable age and maturity to be able to communicate a view on the proposal, at the affected schools
- The teaching and ancillary staff at the affected schools
- The trade unions representatives of the above staff
- Representatives of the Roman Catholic Church
- Midlothian Councillors and Church Representatives of the Council
- Community Council of Loanhead and District, Community Council of Damhead and District, Community Council of Roslin and Bilston
- Community Planning Partnership
- Relevant users of the affected schools
- Constituency MP and MSP
- Education Scotland

A copy of this document is also available from:
- St Margaret's RC Primary School, 36 Edgefield Road, Loanhead, EH20 9DY
- St Mary's RC Primary School, Rosewell Road, Bonnyrigg, EH19 3HL
- St Matthew's RC Primary School, 32 Carnethie Street, Rosewell, EH24 9AT
- Sacred Heart RC Primary School, Crockett Gardens, Penicuik, EH26 9BB
- St David's RC High School, 1 Cousland Road, Dalkeith, EH22 2PS
- Loanhead Library, The Loanhead Centre, George Avenue, Loanhead, EH20 9LA

This document can be made available in alternative formats or in translated form for readers whose first language is not English.

If you would like this document in another language or format, or if you require the services of an interpreter, please call 0131 270 7500 or email: enquiries@midlothian.gov.uk

To be taken into consideration, responses to the consultation must be received by **16/11/2021**. These can be made electronically through the online consultation questionnaire at EducationConsultation@midlothian.gov.uk.

Written responses can be returned to:

St Margaret's Consultation, Freepost SCO 622, Midlothian Council, Dalkeith EH22 1DN

The affected consultees are:

The pupils attending St Margaret's RC Primary School

The pupils attending St Mary's, St Matthew's and Sacred Heart RC Primary Schools

The Parent Council of St Margaret's RC Primary School

The Parent Councils of St Mary's, St Matthew's and Sacred Heart RC Primary Schools

The parents / carers of pupils and children expected to attend St Margaret's, St Mary's, St Matthew's and Sacred Heart RC Primary Schools within two years of the date of publication of the proposal paper

The staff employed by the Council and based at St Margaret's, St Mary's, St Matthew's and Sacred Heart RC Primary Schools

The Trade Union and Professional Associations Representatives of the above staff

The Community Councils of Loanhead and District, Damhead and District, and Roslin and Bilston

Community Planning Partnership

Other users of St Margaret's RC Primary School

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Section A: Summary of Process for this Proposal Document

Schools (Consultation) (Scotland) Act 2010

1. The Council has a number of statutory duties relating to the provision of education in its area including the statutory consultation that must be undertaken when proposing a permanent change to any of their schools, including Nursery Schools, such as closure, relocation or change of catchment area. The *Schools (Consultation) (Scotland) Act 2010* principle purpose is:
"to provide strong, accountable statutory consultation practices and procedures that local authorities must apply to their handling of all proposals for school closures and other major changes to schools."

2. This Proposal Document has been prepared in accordance with the Schools (Consultation) (Scotland) Act 2010, having regard to the statutory guidance published by the Scottish Government on 14 May 2015, both of which are available for reference at the following websites:

   Schools (Consultation) (Scotland) Act 2010:
   http://www.legislation.gov.uk/asp/2010/2/contents

   Statutory Guidance (14 May 2015):
   http://www.gov.scot/Publications/2015/05/4615

3. The process for consultation, summarised in this section, details how the Council is undertaking this consultation.

Consideration by Council

4. The Education (Scotland) Act 1980 places a legislative duty on the Council to ensure the adequate and efficient provision of school education in their area. This duty applies in respect of both the current school population and anticipated pattern of demand. In addition, Councils have a statutory duty to secure best value in terms of the Local Government in Scotland Act 2003.

5. This Proposal Document has been issued to seek views on the proposals in this paper and report back to Midlothian Council on the outcome of the consultation in order that the Council can make a decision on any proposed changes.

Proposal Document issued to consultees and published on Midlothian's website

6. An information leaflet setting out details about the proposal and consultation meetings will be issued to the consultees listed on page 3. Advice on where the complete Proposal Document can be obtained will be included and published on www.midlothian.gov.uk/stmargarets

7. If requested, copies of the Proposal Document will also be made available in alternative formats or translated for readers whose first language is not English.

8. A "Frequently Asked Questions" (FAQs) document has also been prepared which is also available on www.midlothian.gov.uk/stmargarets

Publication of advertisement in local newspapers

9. An advertisement will be placed in the Midlothian Advertiser and a pre-announcement will be made on the Council's website and social media platforms.

Length of Consultation Period

10. The consultation period will commence on 28/9/21 and will last until close of business on 16/11/21 being a period of 6 weeks, which also includes the minimum 30 school days.

Format of Public Meetings

11. A public meeting will be held on 12th October and a virtual meeting through Microsoft Teams on the 13th October, the details of which are set out below in paragraphs. These meetings may be subject to Covid-19 restrictions and any advice from the Scottish Government.

Involvement of Education Scotland

12. When the Proposal Document is published, a copy will be sent to Education Scotland by Midlothian Council. Education Scotland will also receive a copy of any relevant written representations that are received by the Council from any person during the consultation period, or if Education Scotland agree, a summary of them. Additionally, Education Scotland will receive a summary of any oral representations made to the Council at the public meetings and drop in sessions that will be held and, as available, a copy of any other relevant documentation.

13. Education Scotland require three weeks within which to prepare a report on the educational aspects of the proposal after the Council has sent them all the representations and documents as mentioned above. The three-week period will not start until after the consultation period has ended. In preparing their report, Education Scotland may visit the affected schools and make such reasonable enquiries of such people there as they consider appropriate.

Preparation of the Consultation Report

14. The Council will review the proposal having regard to the Education Scotland report, written representations that it has received and oral representations made to it by any person at the public meeting and drop in session. It will then prepare a final Consultation Report. The report will be published in electronic and printed formats and will be advertised in the local newspaper. It will be available on the Council website, from the affected schools and by request from Council Headquarters, Fairfield House, Dalkeith. Anyone who has made written representations during the consultation period will also be informed about the report. The Consultation Report will include a record of the total number of written representations made at the public meetings and drop in sessions, the Council's response to the Education Scotland report as well as any written or oral representations it has received, together with the Education Scotland report and other relevant information. It will also set out the actions the Council has taken to address any alleged inaccuracies and omissions

notified to it. The Consultation Report will also contain a statement explaining how it complied with the requirement to review the proposal in light of the Education Scotland Report and representations (both written and oral) that it received. The Consultation Report will be published and be available for further consideration for a period of 3 weeks.

Decision

15. The Consultation Report together with any other documentation will be considered after the end of the 3-week period, by the Council who will come to a final decision on this matter.

Scottish Ministers Call-in

16. At the end of the consultation process, Section 15 of the *Schools (Consultation) (Scotland) Act 2010* enables ministers to call-in a decision to implement the proposed closure of St Margaret's RC Primary School.

17. Beginning on the day the final decision is taken, the Council has a period of six working days to notify Scottish Ministers of the decision. Scottish Ministers then have a period of up to eight weeks from and including the date of the Council's decision to decide if they will call-in the proposal. The Council must publish the fact that the Scottish Ministers have been notified and that representations can be made to the Scottish Ministers within the first three weeks of the eight week period. The Scottish Ministers will take into account any relevant representations made to them by any person within the first three weeks. The Council may not proceed with the implementation of the proposal during the call-in period.

18. If the Scottish Ministers decide to call-in a closure proposal, it is then referred to the Convener of the School Closure Review Panels who has a period of seven days after a call-in notice is issued, to constitute a School Closure Review Panel. The Panel may decide to refuse consent to the proposal, refuse consent and remit it to the education authority for a fresh decision or grant consent to the proposal, either subject to conditions, or unconditionally. The Panel must notify the education authority of its decision within eight weeks from when the Panel was constituted or within sixteen weeks if the Panel has issued a notice to the education authority that a decision has been delayed. The Council may not proceed with the implementation of the proposal until the outcome of the call-in has been notified to the Council.

19. Appendix 1 sets out the timeline for both the Consultation and Scottish Ministers Call-in periods.

Note on Corrections

20. If any inaccuracy or omission is discovered in this Proposal Document either by the Council or any person, the Council will determine if relevant information has been omitted or there has been an inaccuracy. It may then take appropriate action which may include the issue of a correction or the reissuing of a Proposal Paper or the revision of the timescale for the consultation period if appropriate. In that event,

relevant consultees and Education Scotland will be advised. The person, or persons who have raised concerns will receive an individual response to their submission.

Public Meeting and Drop-In Session

21. Two formal public meetings will be held to discuss the proposal. Subject to Covid-19 restrictions and guidance from the Scottish Government, the first will be a meeting which can be attended in person and the second will be a virtual meeting. Anyone wishing to attend these meetings, whether in person or remotely, is invited to indicate which meeting they wish to attend by contacting EducationConsultation@midlothian.gov.uk. The public meetings, which will be convened by Midlothian Council will be addressed by the Executive Director, Children, Young People and Partnerships Directorate and other senior officers of the Council, and chaired by an independent person.

22. The public meetings will be an opportunity to:
    - Hear more about the proposal
    - Ask questions about the proposal
    - Have your views minuted so that they can be taken into account as part of the consultation process

23. The first public meeting will be held on 12/10/2021 at Loanhead Primary School at 6:30pm.

24. The second public meeting will be held as a virtual meeting on 13/10/21 at 6:30pm.

25. Virtual drop-in sessions will be held on 27/10/21, there will be 20 minute time slots available from 10am to 12noon, 2pm to 4pm and 6pm to 8pm please contact EducationConsultation@midlothian.gov.uk to book a time.

26. A minute will be taken at the public meetings of comments, questions and officer responses. A summary of the points raised and responded to will be added to the FAQs published on the Council website. The minute will be forwarded to Education Scotland along with all other submissions and comments that are received by the Council during the consultation process as explained above.

Section B: Proposal for Consultation

Introduction

1. The *Education (Scotland) Act 1980* places a legislative duty on the Council to make adequate and efficient provision of school education across its area. This duty applies in respect of both the current school population and anticipated pattern of demand.

2. Section 3D of the *Standards in Scotland's Schools etc. Act 2000* (as inserted by Section 2 of the Education (Scotland) Act 2016) introduces a requirement on education authorities to carry out their duty to ensure the delivery of improvement in the quality of school education which is provided in the schools they manage, with a view to achieving the strategic priorities of the National Improvement Framework. It is, therefore, the duty of the education authority to ensure that the education it provides is directed to the development of the personality, talents and the mental and physical abilities of the children to their fullest potential.

3. In addition, Councils have a statutory duty to secure best value in terms of the *Local Government in Scotland Act 2003* by continuous improvement in performance of the local authority's functions, while maintaining an appropriate balance between quality and cost and having regard to economy, efficiency, effectiveness, equal opportunities and the achievement of sustainable development.

Midlothian's Vision for Education

4. The Council is ambitious for the future of Midlothian. The Vision for Midlothian is a Great Place to Grow. The Community Planning Partnership has identified Carbon Neutral by 2030 as an overarching aim supported by 3 main priorities:

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

5. We continue to aspire to deliver a world-class education system through equity and excellence. Our vision is to provide the highest quality inclusive education, learning and employability service for all individuals and families in Midlothian. To realise this vision we will support the priorities set out in the Single Midlothian Plan, Getting it Right for Every Child and will:
    - give all our children the best possible start in life, providing an inclusive learning environment that builds resilience;
    - ensure that every young person has the opportunity to be a successful learner, confident individual, responsible citizen and an effective contributor who is healthy and happy, especially those who are care experienced;
    - work with our communities to promote high expectations which deliver the best educational outcomes for all learners; and
    - Celebrate diversity, reduce inequalities and remove barriers to learning.

Our Context

6. Midlothian's population is projected to grow by 8% over the next 6 years with significant growth projected across our early years and school age population.

7. In 2020/21 there were:
   - 7,946 pupils in primary schools;
   - 5,429 pupils in secondary schools;
   - 53% children accessing 600 hours, across 2 nursery schools; nursery classes in 26 primary schools; 33 partner providers with whom we commission ELC places and 50 childminders
   - 47% children accessing 1140 hours, across 2 nursery schools; nursery classes in 26 primary schools; 33 partner providers with whom we commission ELC places and 50 childminders
   - 10 specialist provisions, with approximately 210 children and young people attending;
   - 29.03% of children and young people with Additional Support Needs;
   - 3.15% of children and young people recorded as care experienced;
   - 11.35% living in most deprived areas compared with 15.08% living in least deprived areas.
   - A pupil-teacher ratio of 18.83 in primary and 12.66 in secondary
   - 22 school buildings reported as condition A (good), 11 schools reported as condition B (satisfactory) and 7 schools reported as condition C (poor). No schools are reported as condition D (Bad).

Current Education Provision at St Margaret's RC Primary School

8. St Margaret's RC Primary School is a denominational school situated in Loanhead. It welcomes Roman Catholic pupils as well as pupils of other or no faith. To secure Best Value and to better meet the needs of learners the school is currently hosting the Treehouses Additional Support Needs provision whilst new bespoke Additional Support Needs provision is being planned within new schools. It is one of the complement of seven denominational primary schools in Midlothian. The school serves the areas of Loanhead, Bilston and Roslin. A map of the catchment area is provided in Appendix 2.

9. The school roll has declined in recent years from a high of 63 pupils in 2016 to 18 pupils by the time of the 2020 pupil census. At the start of the 2021/22 school year there were 2 pupils attending St Margaret's. Subsequently these pupils have moved to another school leaving 0 pupils on the school roll.

10. The 18 pupils that were enrolled at the time of the 2020 pupil census have as at 14th September enrolled in the following schools;

- Loanhead PS	8 pupils
- Paradykes PS	2 pupils
- Sacred Heart RC PS	2 pupils
- Stobhill PS	2 pupils
- Out with Midlothian	4 pupils

In 2019 the Education Service initiated a review of Midlothian's denominational school provision, in the context of a national shortfall in availability of teachers with approval necessary to teach in Roman Catholic (RC) schools, which will have had an impact on the St Margaret's RC Primary school roll. However, this impact was not reflected across all other denominational schools also affected by the review.

11. The review concluded and was reported to Council in June 2021 (Appendix 3) with the following recommendations:
    - the Council retains six denominational primary schools and one denominational secondary school as part of the learning estate; and
    - authorises the Executive Director Children, Young People & Partnerships to undertake statutory consultation on the proposal to permanently discontinue primary education at St Margaret's RC Primary School and to extend the catchment areas of the neighbouring RC primary schools to include the St Margaret's catchment area

12. The St Margaret's RC Primary School building, which has capacity for 100 primary pupils, is part of the Ramsay Campus which was built in 2007 and is shared with Loanhead Primary School. The shared facilities include two P.E. halls, an expressive arts hall, dining facilities and a well-equipped playground. The campus is a PPP facility with a life cycle maintenance programme which maintains the building to a high standard. Both Loanhead PS and St Margaret's RC PS are rated Good (A) for condition and Good (A) for suitability.

13. If this proposal is passed, the future use of the building would require to be assessed. A few potential options may be that it is required to satisfy the demand for Additional Support Needs pupils or retained to meet capacity pressures due to the region's growth. These and any other potential options will have to be considered.

14. The school does not have a separate nursery. Pupils who go on to attend St Margaret's RC Primary School have often attended the Loanhead Nursery which is co-located on the Ramsay Campus.

15. There are approximately 4,970 dwellings in the catchment of St Margaret's RC Primary School. In August 2020 there were 735 primary-aged children residing in the area and attending a Midlothian primary school. Of these only 11 pupils attended St Margaret's with another 7 pupils attending as a result of parental choice.

16. Curriculum for Excellence (CfE) sits at the heart of what Midlothian Council is committed to achieving in terms of raising attainment and achievement, and improving educational outcomes for all children. CfE is intended to nurture successful, effective, confident and responsible children, able to learn and utilise learning in a way that helps them reach their full potential and to respond to the increased variety and pace of change in today's and tomorrow's world.

17. Most of the families who have moved recently from St Margaret's RC Primary School have chosen Loanhead Primary School for their children's primary school, which has a roll of 189 pupils. At the time of the 2020 pupil census of the 735 children residing in the St Margaret's catchment 720 were attending a non-denominational primary school, with 15 attending an RC primary school.

18. The history of the pupil roll of St Margaret's RC Primary School since 1996 is shown on page 12. The highest roll recorded over these years was in 2003 when there were 88 pupils on the roll. The school roll has fallen over recent years from 63 pupils in 2016 to today's pupil roll of 0 pupils.

19. The Council's Learning Estate Strategy 2017 – 2047 cautions against the building of smaller primary schools, with capacity for up to 210 pupils, and prefers a model with larger primary schools which are more sustainable, particularly in non-rural areas. The strategy recognises that approximately 12% of pupils attending Midlothian primary schools choose to attend a denominational school and notes that a larger catchment area with approximately 9,000 homes is required to sustain a single stream denominational school.

20. Informal consultation meetings were held with staff and parents over 2019 and 2020 as part of the denominational review. Parental support for the RC schools in Midlothian in terms of choice of school remained strong throughout this period with the exception of St Margaret's RC PS. The school roll at St Margaret's RC PS fell from 40 to 18 pupils and there were indications that a number of these children would move to other schools in the near future.

21. In June 2021 officers of the Council held virtual meetings with St Margaret's RC PS parents and representatives of the Catholic Church informing them of the intention to propose to proceed without delay to statutory consultation on the proposal to close St Margaret's.

22. Consequently on 29 June 2021 at full Council the Executive Director Children, Young People & Partnerships was authorised to undertake statutory consultation on the proposal to permanently discontinue primary education at St Margaret's RC Primary School and to extend the catchment areas of the neighbouring primary schools to include the St Margaret's RC PS catchment area.

Proposed Changes to School Catchment Boundaries

23. The proposal is to redistribute the catchment area of St Margaret's RC Primary School to the neighbouring RC primary schools on the basis of the shortest route between the schools based on current bus routes. This approach is proposed as the direct route from Roslin to Bonnyrigg via Roslin Glen is not used as a public transport route.

24. In addition it is proposed to align the boundaries of St Mary's, St Matthew's and Sacred Heart RC Primary Schools with the catchment boundaries of the non-denominational primary schools in these areas so that all children residing in a non-denominational primary school catchment area will have the same denominational catchment school.

25. On this basis the catchment of:
    - St Mary's RC Primary School will be expanded to include the catchment areas of Bilston, Paradykes and Loanhead;
    - Sacred Heart RC Primary School will be expanded to include the catchment area of Roslin;
    - St Matthew's RC Primary School will be expanded to include Firth Mains, Firth Road & Rosslynlee

26. The closure of St Margaret's RC Primary School will directly affect the following schools and is considered in this Proposal Document:
    - St Margaret's RC Primary School
    - St Mary's RC Primary School
    - St Matthew's RC Primary School
    - Sacred Heart RC Primary School

27. The following schools will be indirectly affected by the proposal:
    - St David's RC High School
    - Loanhead Primary School

28. The factors which have been considered in the development of this Proposal Document are:
    - The responsibilities associated with the National Improvement Framework and the new duties imposed on Education Authorities by the Standards in Scotland's Schools etc. Act 2000 as amended by the 2016 Act.
    - The agreed principles underpinning the development of an empowered school led system set out in the 'Education Bill Policy Ambition- Joint Agreement', June 2018 https://www.gov.scot/Publications/2018/06/8745/downloads
    - The duties placed on local authorities in relation to the adequate and efficient provision of school education in their area
    - The duties placed on local authorities to secure best value in the delivery of services

29. If approved, implementation of the proposal will mean:

    - The closure of St Margaret's RC Primary School
    - The transition of all current pupils (if any) to their choice of St Mary's RC Primary School or their catchment non-denominational primary school.

School Roll and Capacity

30. St Margaret's RC Primary School Roll History

Capacity	**100**
	Roll
1996	80
1997	79
1998	83
1999	76
2000	79
2001	83
2002	82
2003	88
2004	84
2005	76
2006	73
2007	66
2008	51

Capacity	**100**
	Roll
2009	48
2010	42
2011	32
2012	42
2013	42
2014	50
2015	59
2016	63
2017	59
2018	55
2019	40
2020	18
2021	2

Section C: Educational Benefits Statement

Assessment of Likely Educational Benefits on Pupils

1. The Educational Benefits Statement for this proposal has been prepared having regard to the guidance and explanatory notes published by the Scottish Government in association with the Schools (Consultation) (Scotland) Act 2010 and which are available for reference at the following websites respectively:

   www.scotland.gov.uk/Resource/Doc/91982/0097130.doc

   http://www.legislation.gov.uk/asp/2010/2/contents

   'An education authority shall endeavour to secure improvement in the quality of school education which is provided in the schools managed by them; and they shall exercise their functions in relation to such provision with a view to raising standards of education.'

2. As required by the Schools (Consultation) (Scotland) Act 2010 this Educational Benefits Statement is written from the perspective of benefits, should the proposal be implemented. Additionally the self-evaluation tool provided by Education Scotland is used to ensure compliance with the amended procedures now in place from the Act.

3. If this proposal is implemented, the Council believes that there will be considerable educational benefits arising from this. These centre around:

   - Learning and teaching;
   - Meeting learners needs;
   - Broadening the range of opportunities; and
   - A more vibrant and lively learning environment.

4. Curriculum for Excellence (CfE) sits at the heart of what Midlothian Council is committed to achieving in terms of raising attainment and achievement, and improving educational outcomes for all children. CfE is intended to nurture successful, effective, confident and responsible children, able to learn and utilise learning in a way that helps them reach their full potential and to respond to the increased variety and pace of change in today's and tomorrow's world. The principles of Curriculum for Excellence recognise the professionalism of teachers and the importance of this in exercising the freedom and responsibility associated with broader guidance. This means that schools are able to design their curriculum to meet the specific needs of their children and community while delivering their entitlement to a broad general education.

5. The Council is steadfast in our objective to stabilise and strengthen RC provision and denominational education within and across Midlothian. Because of the progress made to date we are now more optimistic about our ability to recruit and retain suitable teachers for our RC schools. With continued investment in our workforce plan, specifically for our RC schools, we will strengthen our ability to grow our own RC teachers, middle managers and head teachers.

6. St Margaret's RC Primary School is a small school situated in the Loanhead settlement, with only two pupils attending the school from the start of the 2021/22

school session. Most of the pupils who have recently chosen to attend elsewhere, attend either Loanhead Primary School or one of the other RC primary schools and continue to benefit from education in a locality familiar to them, and still relatively close to home.

7. The Education Service of Midlothian Council recognises the high quality of education provision offered at St Margaret's Primary School. However it considers that the very small number of children attending the school would benefit more from the wider range and breadth of learning experiences available to them within other learning environments and within a wider peer group at their age and stage.

8. Building the Curriculum 5 states that *'the purpose of the curriculum at the primary stages is to promote children's development and learning across a broad range of contexts in order to develop their thinking and learning and their physical, personal and social growth. Primary education, whether for those in school settings or those not in schools, should support children to develop and mature as independent and cooperative learners who contribute actively across a range of learning and social situations.'*

9. The implementation of this proposal would ensure that the children have this breadth of experience and have parity of access to learning and opportunities offered within larger establishments.

10. As part of the Curriculum of Excellence, one of the aims of Developing Scotland's Young Workforce is to develop increased awareness of the world of work, social skills and employability skills. Such knowledge and understanding and skills acquisition very much benefit from discussions and dialogue with peers of the same age/stage and through increased opportunities for interaction with the community.

Learning and Teaching

11. The curriculum includes a broad range of experiences which are planned for children and young people through their education, to help every child and young person to develop knowledge, skills and attributes for success in learning, life and work. In St Mary's RC Primary School and other non-denominational Primary Schools in the catchment, children are encouraged to be eager and active participants, who are engaged both individually and cooperatively in groups, resilient and highly motivated during their learning. Children know that their views are sought, valued and acted upon.

12. The learning environment encourages high levels of achievement, providing a wide range of opportunities for children to achieve their full potential within the four contexts of learning. In St Mary's RC Primary School and other non-denominational Primary Schools in the catchment, children may be taught in classes composed of children from more than one year group and may have a wide variation of ages. Children benefit from being part of a social context in which they can build relationships with different groups and individuals, develop social skills, meet challenges and exercise responsibilities as members of a social group. They are able to interact and socialise with groups of children, take part in team activities and move with their peers to secondary school.

13. At St Mary's RC Primary School and other non-denominational Primary Schools in the catchment, staff are challenged and supported through a range of continuous career long professional learning opportunities gained by working and learning with a

range of colleagues. St Mary's is part of the St David's RC High School Associated School Group, which means that staff can collaborate readily across sectors, moderation and tracking of pupil progress is robust, and staff can more easily support a wide range of needs across age and stage appropriate groups. This includes support for those working towards individual milestones.

14. Colleagues within St Mary's RC Primary School and other non-denominational Primary Schools in the catchment are able to support and challenge each other on a daily basis, moderating their planning and learning experiences with colleagues working with children at the same level, thus ensuring appropriate support, challenge and progression. The whole staff team is able to bring a range of talents and skills to benefit outcomes for learners.

15. St Mary's RC Primary School and other non-denominational Primary Schools in the catchment encourages nurture and positivity. One aspect of this work is a successful Buddy System. Children from different stages work and learn together. This vertical support is particularly evident on sports day and in the dining room when groups of children are together in a social context. This system develops and benefits both the 'buddy' and the 'buddied'. This system works well and benefits the wide range of children in the school.

Meeting Learners' Needs

16. Through the Getting it Right for Every Child (GIRFEC) practice model, meeting the needs of every child continues to be a priority and teachers carefully plan and assess to ensure each child has the opportunity to reach their potential. Careful tracking and monitoring procedures are in place to evidence pupil progress. At St Mary's RC Primary School and other non-denominational Primary Schools in the catchment this includes professional dialogue with teachers, learning discussions with children, classroom observations, assessment and looking at pupil work.

17. St Mary's and other non-denominational Primary Schools in the catchment also have planned meetings and discussions with parents. These discussions between home and school improve parental engagement whilst focussing on next steps for learning. Where appropriate, interventions are put in place, while working effectively with other agencies and parents to ensure the needs of each child are met, including for those working towards individual milestones.

18. The staff, parent body and partner groups also bring opportunities for increased collaborative working. This applies both in terms of the wider curriculum and within aspects of the curriculum that may be enhanced by staff individual expertise e.g. PE, language, science, expressive arts teaching.

19. A 'Respect Me' policy is built into class lessons and permeates the whole school ethos through assemblies and collaborative class work on rights and responsibilities.

Broadening the Range of Opportunities

20. Curriculum for Excellence (CfE) helps our children gain the knowledge, skills and attributes needed for life in the 21st century. The development of skills is integral to

supporting our children to become successful learners, confident individuals, responsible citizens and effective contributors (the four capacities). The range of skills and attributes that children develop should provide them with a sound basis for their development as lifelong learners in their adult, social and working lives, enabling them to reach their full potential.

21. These skills should be developed across all curriculum areas, and are embedded into the Curriculum for Excellence Experiences and Outcomes, requiring teachers to plan opportunities to develop them in a variety of ways, including engagement in active learning, interdisciplinary tasks and to experience learning in practical contexts. A critical part of all of this is learning in collaborative and cooperative situations with peers and age and stage appropriate groups.

22. Children at St Mary's RC Primary School and other non-denominational Primary Schools in the catchment are offered a range of active, planned experiences which help them develop the knowledge and understanding, skills, capabilities and attributes which they need for their mental, emotional, social and physical wellbeing both now and in the future. This is in line with their entitlement to a broad general education.

23. There is also a strong transition planning process between St Mary's RC Primary Schools and St David's RC High School, which involves opportunities for children to participate and to make new connections.

24. Children at St Margaret's RC Primary School would benefit from a variety of experiences to develop their sense of responsibility, independence, confidence and enterprising attitude, as well as teamwork experiences, which are provided at St Mary's RC Primary School and other non-denominational Primary Schools in the catchment through work with larger cohorts of children of the same age and stage, and working at the same level.

25. Across St Mary's RC Primary School children are engaged with learning and contribute well in lessons. Staff promote positive relationships at all levels, the impact of this being that children enjoy good relationships with their peers. They also have opportunities to support each other in their learning through cooperative and collaborative peer experiences.

Environment for Learning

26. St Mary's RC Primary School and other non-denominational Primary Schools in the catchment are suitably-equipped and well supported, situated within 4.2 miles of St Margaret's RC Primary School. The St Mary's RC PS building is part of the new Hopefield Road School Campus, it is rated good (A) for both condition and suitability. The school building is large enough to provide a full range of facilities, including Early Years provision and has facilities for pupils and visitors with special access needs.

27. The learning environment in St Mary's RC Primary School and other non-denominational Primary Schools in the catchment offers children the opportunity to participate in a wide range of active learning strategies, using atria and dedicated expressive arts and PE spaces.

Assessment of the effects of the proposal (if implemented) on other users of the school

Implications for staff

28. If this proposal is implemented, the staff in St Margaret's RC Primary School will all be offered positions in other schools or settings. The staff will be supported by the HR Support Processes in the Council to ensure a smooth transition in their roles.

29. If this proposal is implemented, there will be no new implications for teaching and support staff in St Mary's RC Primary School.

30. If this proposal is implemented, the Council does not envisage any adverse effects from the proposal in respect of staffing. Should issues arise however, these will be mitigated through the Council's Educational Leadership Team support structure.

Assessment of likely educational benefits on any children who would be likely to become pupils at St Mary's RC Primary School within two years of the publication of the proposal paper.

31. Children who may live in this catchment area in the future will benefit from the broad range of educational opportunities which are presented through this proposal, as detailed above.

32. Pupils who would otherwise have attended St Margaret's RC Primary School, would benefit from daily interaction in a larger denominational peer group and from improved educational arrangements as described above. St Mary's RC Primary School is a larger school which is able to support a wider range of social and extra-curricular activities. Pupils attending St Mary's RC Primary School will have more shared experiences and opportunity for friendships. This will enhance their confidence and ease their transition to secondary school. Larger year groups make the provision of specialist services more viable and provide enhanced opportunities for school trips. St Mary's RC Primary School meets the requirements of the Equality Act 2010.

Assessment of the effects of the proposal (if implemented) on other pupils in the Council area

33. The cost per pupil of operating St Margaret's RC Primary School is relatively high compared with other Midlothian primary schools due to the low number of pupils attending. The reduction in school operating costs which would be achieved by the closure of St Margaret's RC Primary School means that this is a saving to the Council, though the future use of the building if the proposal has yet to be decided and may be retained to meet other Educational demands. (See Appendix 4)

34. There are no other significant negative impacts from this proposal on other pupils in the authority or on those who attend other schools. Council may decide that the saving that will be made if this proposal is implemented would be retained in the Education budget to the benefit of pupils across the learning estate.

Placing requests

35. This proposal will not affect the right of parents to request that their child attend a school of their choice rather than the designated school in whose catchment area the family lives as provided by the Education (Scotland) Act 1980.

36. Summary of Educational Benefits Statement

37. In summary, there is a range of educational benefits for pupils if this proposal is to be implemented, as summarised in the paragraphs above. There are benefits for the development of peer collaboration and cooperation, of social and emotional skills, as well as the educational benefits resultant from access to a more diverse curriculum. Also the pupils will benefit from a Roman Catholic Education within a larger denominational community.

38. The educational benefits of this proposal, such as the ability for children to participate in a broader range of learning experiences, to learn within a wider peer group at their age and stage, and to have parity of access to learning and opportunities, are significant and will better meet the educational, social and emotional needs of the children.

39. The one negative aspect for pupils identified arises from the children currently attending St Margaret's RC Primary School having to travel further from home to school. However it is considered that the positive aspects of this proposal outweigh the negative aspect of some travelling for children.

Section D: Consideration of Alternative Options and Other Implications

1. The Council's Learning Estate Strategy 2017 – 2047 cautions against the building of smaller primary schools, with capacity for up to 210 pupils, and prefers a model with larger primary schools which are more sustainable, particularly in non-rural areas. It is therefore considered preferable to progress a solution for the St Margaret's RC Primary School community aligned with the Council's preference for larger primary schools.

2. The Denominational Review looked at a number of options to stabilise and strengthen RC provision and denominational education within and across Midlothian. Informal consultation meetings were held with staff, parents and representatives of the Catholic Church over the period of the review. Parental support for the RC schools in Midlothian in terms of choice of school remained strong throughout this period with the exception of St Margaret's RC PS. The school roll at St Margaret's RC PS fell from 40 to 18 pupils and there were indications that a number of these children would move to other schools in the near future.

3. In June 2021 officers of the Council held virtual meetings with St Margaret's RC PS parents and representatives of the Catholic Church informing them of the intention to propose to proceed without delay to statutory consultation on the proposal to close St Margaret's RC PS.

4. Consequently on 29 June 2021 at full Council the Executive Director Children, Young People & Partnerships was authorised to undertake statutory consultation on the proposal to permanently discontinue primary education at St Margaret's RC Primary School and to extend the catchment areas of the neighbouring primary schools to include the St Margaret's catchment area.

Transition Arrangements

5. Subject to the conclusion of the Scottish Ministers eight-week call-in period or the notification of the outcome of a call-in, as appropriate, if approved, the closure of St Margaret's RC Primary School will take effect from 1 July 2022.

6. Children currently attending St Margaret's RC Primary School will be supported to make the transition to St Mary's RC Primary School, or to their non-denominational primary school as appropriate. The Education Service will work closely with the staff, parents and pupils of St Margaret's RC Primary School to ensure children are supported effectively to transition to their new school and that continuity and progression in their learning is sustained.

Staffing Implications

7. If this proposal is implemented, the staff in St Margaret's RC Primary School will all be offered positions in other schools.

8. If this proposal is implemented, there will be no new implications for teaching and support staff in St Mary's RC Primary School.

9. If this proposal is implemented, the Council does not envisage any adverse effects from the proposal in respect of staffing. Should issues arise however, these will be mitigated through the Council's Education Leadership Team support structure.

Financial Implications

10. The full breakdown of the financial analysis is detailed in Appendix 4.

11. This information gives details on the estimated cost of operating St Margaret's RC Primary School for the financial year 2021/22.

12. Column 2 of Table 1 at Appendix 4 shows the projected annual running costs of St Margaret's RC Primary School whilst Column 3 shows the additional impact on St Mary's RC Primary School as the receiving school. The annual recurring savings (or costs) are shown in Column 4.

13. The main elements included within a school budget are teacher employment costs (i.e. basic salary costs plus related employer's National Insurance and Superannuation contributions plus any relevant individual allowances); Local Government employee costs and an allocation for discretionary expenditure incurred by the school (i.e. educational equipment, materials, staff travel, etc.). Teacher staffing budgets are calculated on an annual basis and within the primary sector are determined, taking cognisance of the SNCT class size maxima, by the number of classes required to provide for the specific number and age of the pupils in each

school. When a school ceases to be operational the teacher staffing budget is adjusted (at the appropriate time), with the staffing budget resulting in a nil value.

14. In line with the national priority of maintaining teacher numbers, the Education Service operates on the basis that supernumerary teachers are redeployed and therefore their salary costs still exist. As Midlothian's population is increasing the authority employs additional teachers year on year and it is anticipated that any supernumerary teachers from St Margaret's RC Primary School can be redeployed and reduce the required number of additional teachers. Some of the costs noted in column 3 of Table 1 will not directly impact on St Mary's RC Primary School but they will be a cost to the Authority as a whole, for example school transport costs.

15. Table 2 shows the average annual lifecycle cost of £21,323 that would arise based on the Gross Internal Floor Area of St Margaret's RC Primary School, irrespective of the number of pupils accommodated. Lifecycle costs are representative of the cost needed to keep the building in a good state of repair. The notional cost over the next thirty years therefore to maintain St Margaret's RC Primary School is £639,690.

Revenue Budget Implications

16. Should this proposal be implemented there is an estimated annual revenue budget saving of £26,593. This saving is predicated on the disposal of the building, revenue costs will continue to be borne by the Council until such time.

Capital Budget Implications

17. There are no capital budget implications directly associated with this proposal. Housing developments across Midlothian make a contribution to the cost of providing consequential educational capacity. This applies equally across the St Margaret's catchment and any contributions received will be applied against the cost of the additional capacity that will be provided to serve the area.

Integrated Impact Assessment

18. The Council as a public authority has a duty under the Equality Act 2010, the Public Sector Equality Duty 2011, and the Fairer Scotland Duty (Part one of the Equality Act) to have due regard to their provisions when making strategic financial decisions. This is done through assessing the potential impact of the decision on equality through an Equality Impact Assessment. The Council will undertake the process of assessment during the consultation process in respect of this proposal to ensure that due regard is given to such matters in the decision making process.

19. The result of the Integrated Impact Assessment will be included in the final Consultation Report document.

Section E: Conclusion

1. It is proposed that education provision at St Margaret's RC Primary School be discontinued with effect from 1 July 2022 and the catchment areas of St Mary's, St Matthew's and Sacred Heart RC Primary Schools be extended to include the current catchment area of St Margaret's RC Primary School.

2. This proposal will bring educational benefits to the present and future users of the affected schools and assist in ensuring that the Education budget is more sustainable into the future, as the costs per pupil in under-occupied schools are excessively high. This is in line with our duty to secure best value.

3. As part of the Council's Asset Management Strategy, the future use of the building would require to be assessed. A few potential options may be that it is required to satisfy the demand for Additional Support Needs pupils or retained to meet capacity pressures due to the region's growth. These and any other potential options will have to be considered.

4. Overall there are no environmental impacts as a result of this proposal.

5. Overall there are strong educational arguments in favour of this proposal.

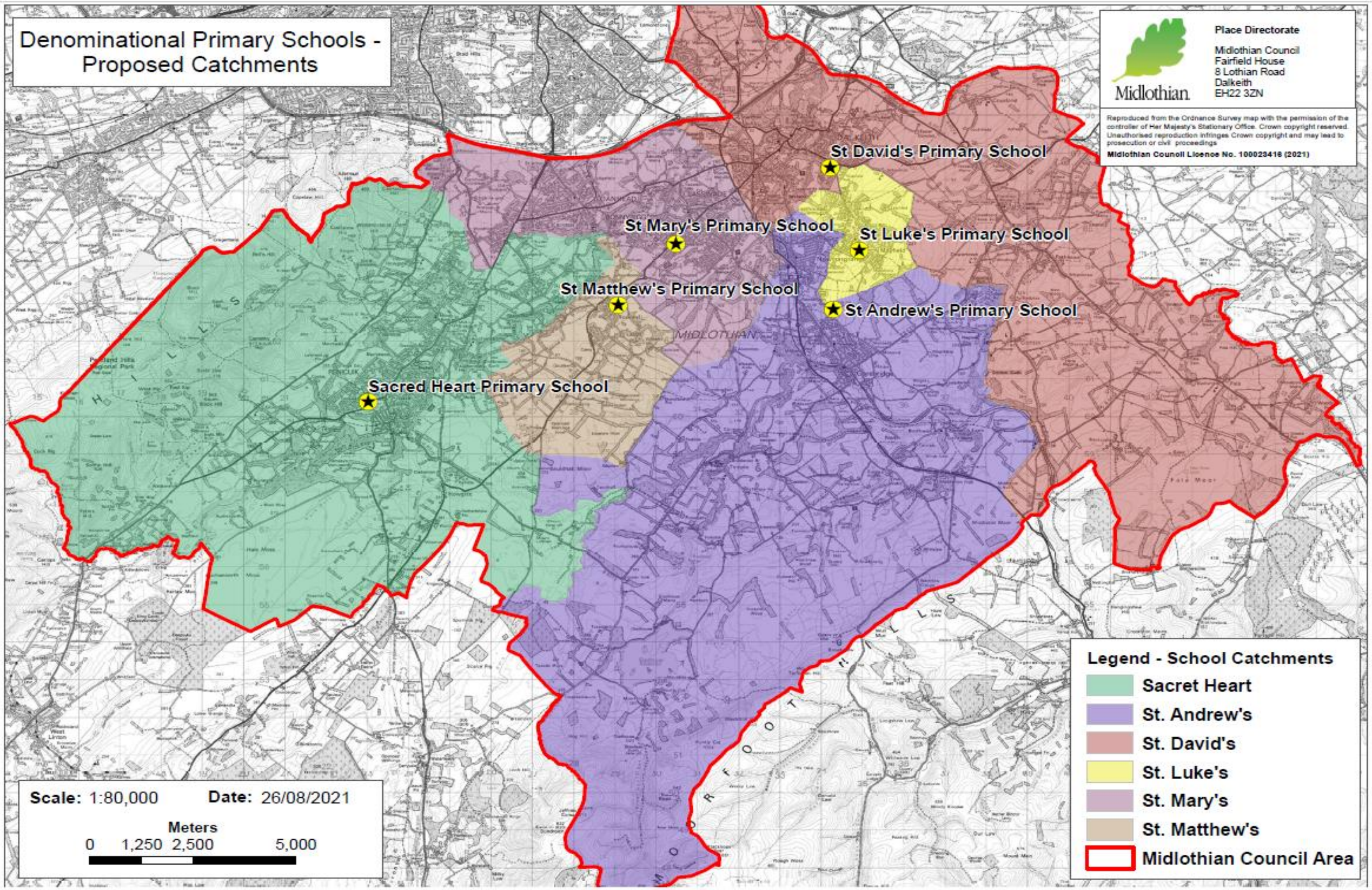
Appendix 1:

St Margaret's Consultation and Scottish Ministers Call-In Process Timeline

	Date Beginning	**Date Ending**	**Duration**
Statutory Consultation Period Including: • Public meetings • Drop in sessions • Engagement with staff, pupils and parent councils	28/9/21	16/11/21	6 weeks
Education Scotland Engagement Period	17/11/21	8/12/21	3 weeks
Publication of Consultation Report	9/12/21		
Further Consideration after publication of report	9/12/21	20/1/22	3 weeks
Consideration of Consultation Report by Midlothian Council	15/2/2022		
Notification of Council Decision to Scottish Ministers	within 6 working days of Council decision		
If proposal approved, Scottish Ministers Consideration of Council Decision	up to 8 weeks from Council decision		
If proposal not called-in by Scottish Ministers – Council implementation of Proposal	12/4/22		
If proposal called-in by Scottish Ministers – Council implementation of Proposal	subject to decision of Scottish Ministers		
If proposal called-in – Scottish Ministers refer to School Closure Panel for review	subject to decision of Scottish Ministers		
If proposal called in by Scottish Ministers and the School Closure Review Panel consents to the proposal – Council Implementation of Proposal	subject to decision of Scottish Ministers		

Appendix 2:

Catchment Map



Appendix 3 – Denominational Review June 2021

The Education Service has carried out a review of Midlothian's denominational school provision in the context of a national shortfall in availability of teachers with approval necessary to teach in Roman Catholic (RC) schools. In 2016 the Catholic Church through Archbishop Tartaglia declared a 'crisis in faith education' due to the shortage of Catholic teachers in Catholic Schools (The Tablet.co.uk June 2016). This situation has not improved since 2016 and our objective in undertaking this review has been to find ways to stabilise and strengthen RC provision and denominational education within and across Midlothian.

The relevant legislation on the management of denominational schools in Scotland states that: "A teacher appointed to any post on the staff of any such school by the education authority shall be required to be approved as regards religious belief and character by representatives of the church or denominational body in whose interest the school has been conducted" (Education (Scotland) Act 1918; Education (Scotland) Act 1980 Section 21(2); Self-Governing Schools etc. (Scotland) Act 1989 Sch.10)

The guidance on applying for Approval to teach in a Catholic school issued by the Scottish Catholic Education Service on behalf of the Bishops' Conference of Scotland states that: "To enable Councils to fulfil their statutory responsibilities, the Catholic Church requires to be assured that the personal "religious belief and character" of a teacher is appropriate to the duties associated with the teaching post for which he/she has applied. When seeking approval, a teacher must demonstrate how his/her personal "religious belief and character" enables him/her to undertake the duties of the particular teaching post within the context of a Catholic school, with its particular mission, values and ethos, as outlined in 'A Charter for Catholic Schools in Scotland'."

All teachers working in Catholic schools require to have Church approval. At the point the denominational review was initiated, the RC primary schools across Midlothian were operating with only 50% of teaching staff having Church approval to teach Religious Education and temporary shared headship arrangements in place for four of our RC primary schools. This followed a number of challenging years in relation to recruitment of both teaching and senior leadership staff.

Since then there has been a sustained effort to employ a greater number of teachers with the necessary qualifications to teach in our RC primary schools and for teachers working in our RC schools to undertake the Catholic Teaching Certificate and, therefore obtain Church approval to teach Religious Education. Looking forward to the 2021/22 school year we have set the intake capacity of our RC primary schools taking account of suitably qualified teachers in each school. Taken together these strategies can be seen to be having a positive impact as we anticipate that 67% of the class teachers in our RC primary schools next year will have Church approval to teach Religious Education.

A permanent shared headship has been established at Sacred Heart and St Mathew's Primary Schools, which has brought greater stability to the leadership of both schools. There are no longer any temporary shared headship arrangements in place, however, there are still temporary leadership arrangements at three of our RC primary schools.

In Midlothian, at the time of the 2019 pupil census, our seven RC primary schools had a total of 907 pupils and St David's High School, which serves Musselburgh as well as Midlothian, had 648 pupils. The overall percentage of children attending our RC primary schools in 2019/20 who had a declared affinity with the RC faith was 40%:

RC Primary School	Total Roll	Percentage RC
Sacred Heart	127	34%
St Andrew's	157	36%
St David's	192	41%
St Luke's	201	34%
St Margaret's	40	48%
St Mary's	135	51%
St Matthew's	55	41%
	907	**40%**

Midlothian, as one of the fastest growing local authorities, has rising school rolls across both primary and secondary schools and our RC schools play an important role in providing capacity, particularly in areas of significant pressure such as Bonnyrigg, Dalkeith, Gorebridge and Mayfield. The pupil enrolment process for August 2021 is now well progressed and the demand for Primary 1 places at St David's, St Luke's and St Mary's has been greater than the number of places available. To date there are no Primary 1 pupils enrolled at St Margaret's for the coming school year.

The projections for August 2021 is shown in the tables below:

School	Total Roll	Number of Classes	Percentage RC
Sacred Heart	120	6	37%
St Andrew's	150	7	43%
St David's	190	7	51%
St Luke's	203	8	36%
St Margaret's	18	1	39%
St Mary's	160	7	47%
St Matthew's	56	3	52%
	897	**39**	**43%**

All RC Primary Schools – Projected Number of Pupils by Year Group							
P1	**P2**	**P3**	**P4**	**P5**	**P6**	**P7**	**Total**
104	128	129	120	136	139	141	**897**

St David's RC High School Projected Roll 2021/22						
S1	**S2**	**S3**	**S4**	**S5**	**S6**	**Total**
138	**135**	**142**	**139**	**109**	**98**	**761**

Parental support for our RC schools in terms of choice of school remains strong: the pupil roll of St David's RC High School is growing; the number of pupils attending six of our seven RC primary schools is stable, with a slight increase in the percentage of pupils attending being baptised Roman Catholic. However, the school roll at St Margaret's RC Primary School has fallen from 40 to 18 pupils and there are indications that a number of these children will move to other schools in the near future. As of August 2021, there were 2 pupils remaining.

Taking account of the growth in housing across Midlothian, which will lead to significant growth in total pupil numbers, the Council's learning estate strategy makes provision for investment in new schools and school expansions. Over the past year the refurbishment and expansion of Sacred Heart in Penicuik was completed and we opened a new St Mary's school building in Bonnyrigg. The Council has been awarded funding as part of Scottish Government's Learning Estate Investment Programme to replace the Mayfield School Campus, including the replacement of St Luke's RC Primary School. Plans are being formulated for the refurbishment and expansion of St David's RC Primary School in Dalkeith and the strategy allows for an extension to St Andrew's Primary School in Gorebridge.

St Matthew's RC Primary School serves the rural community of Rosewell and is included in the Scottish Government's list of rural schools. The school building it occupies is leased from the Church and the Council has no plans to make the significant investment that would be required to replace this capacity. St Matthew's Primary School may not continue to be considered rural given the significant housing developments in the area.

In the Denominational Review Briefing document of 18 March 2020 we advised that we had applied the following required outcomes in arriving at the preferred school model of four RC primary schools, with locations in Dalkeith, Gorebridge, Bonnyrigg and Penicuik, and 1 RC secondary school:

- To reduce the required complement of head teachers and teaching staff with Church approval to teach Religious Education;
- To create an RC school structure which provides opportunities for staff progression;
- To maintain sufficient primary RC school capacity across Midlothian;
- To minimise the detrimental effect on the number of pupils who will go on to attend St David's High School;
- To minimise the increase in distances for children to travel from home to school.

Very shortly after that Covid19 struck and delayed our plans to carry out further engagement activities and to progress to statutory consultation as quickly as possible.

We are steadfast in our objective to stabilise and strengthen RC provision and denominational education within and across Midlothian. Because of the progress made to date we are now more optimistic about our ability to recruit and retain suitably qualified teachers for our RC schools with church approval to teach Religious Education. With continued investment in our workforce plan, specifically for our RC schools, we will strengthen our ability to grow our own RC teachers, middle managers and head teachers.

In light of all the foregoing we now believe that we can achieve the required outcomes while making fewer changes to the structure of our RC schools. Any change will require statutory consultation and our next steps prior to the meeting of Council on 29 June are:

- to engage with schools that will be directly affected by the proposals for consultation;
- to engage with Church representatives on the proposals for consultation;
- to draft a paper to obtain governance from Council on 29 June to progress proposals to statutory consultation.

A further briefing will follow before the end of the school session, providing details of the proposals for consultation. This will be timed to ensure that schools are fully informed prior to the council papers being made public.

7 June 2021

Appendix 4: Financial Analysis

Table 1: Current revenue costs for school proposed for closure			
St Margaret's Primary School	**Costs for full financial year (projected annual costs)**	**Additional financial impact on St Mary's Primary School**	**Annual recurring savings (column 2 minus column 3)**
School costs			
teaching staff	142,288		142,288
support staff	20,226		20,226
Teaching staff training (CPD etc.)	556		556
Building costs:			
non domestic rates	7,822		7,822
water & sewerage charges	1,312		1,312
energy costs	15,483		15,483
cleaning (contract or in-house)	0		0
building repair & maintenance	0		0
other - refuse collection	1,976		1,976
School operational costs:			
learning materials	2,775	14	2,761
catering (contract or in-house)			
other school operational costs (e.g. licences)	180	2	178
Transport costs:			
home to school			
Total Costs for School	**192,628**	**16**	**192,612**
Unit Cost per Pupil per Year of 2 pupils	96,314		

Table 2: Capital Life Cycle Costs	
St Margaret' Primary School	**Average Annual Cost**
Capital Life Cycle cost	21,323

Table 3: Annual Property costs to be incurred until disposal	
non domestic rates	7,822
water & sewerage charges	1,312
energy costs	15,483
cleaning (contract or in-house)	0
building repair & maintenance	0

Other	1,976
Total Annual Cost until Disposal	**26,593**

Table 4: Impact on Grant Aided Expenditure (GAE) Allocation	
The Primary Indicator determining the GAE allocation for Primary School Teaching Staff is based on the number of primary school pupils with the secondary indicator being the percentage of pupils in small schools (roll less than 70 pupils averaged over 2 years). The pupils from St Margaret's PS are designated to attend a school which has a roll over 70 pupils.	
However Midlothian Council contributes to the GAE floor mechanism thus will not see a reduction in overall Scottish Government Grant - **GAE Impact**	Nil

APPENDIX 5: ST MARGARET'S CONSULTATION RESPONSE FORM

Midlothian Council

ST MARGARET'S CONSULTATION RESPONSE FORM

I wish my response to be considered as confidential with access restricted to Elected Members and Council Officers of Midlothian Council. ❒

Proposal		
It is proposed that: Education provision at St Margaret's RC Primary School be discontinued with effect from 1st July 2022. The catchment area of St Mary's, St Matthew's and Sacred Heart RC Primary Schools shall be extended to include the current catchment area of St Margaret's Primary School.		
Name: (please print)	Address:	
	Post Code:	
Signature:	Date:	

Further detailed information about the proposal, which you are encouraged to read to help inform your response, can be found at

https://www.midlothian.gov.uk/stmargarets

Please note the closing date for submission of completed questionnaires is **16/11/21**

You can return this electronically to EducationConsultation@midlothian.gov.uk or by post to St Margaret's Consultation, Freepost SCO 622, Midlothian Council, Dalkeith EH22 1DN

About You

1. Are you responding to this questionnaire as an individual or on behalf of an organisation?

Individual ❒

Organisation (please give details below) ❒

2. Which category best describes you?

	St Margaret's	St Mary's	St Matthew's	Sacred Heart	St David's HS
Parent of current pupil(s)	❒	❒	❒	❒	❒
Parent of future pupil(s)	❒	❒	❒	❒	❒
Pupil	❒	❒	❒	❒	❒
Member of staff	❒	❒	❒	❒	❒
Member of the community	❒	❒	❒	❒	❒
Other (please give details)	❒	❒	❒	❒	❒

3. If you are a parent, please indicate which stage of education your child/ children currently attend (please tick all that apply)

Not yet in education	❒
Pre-school education	❒
P1-P3	❒
P4-P7	❒
S1-S6	❒
No longer in school education	❒

4. To what extent do you agree or disagree with the proposal to discontinue primary education provision at St Margaret's RC Primary School?

Strongly agree	❒
Agree	❒
Disagree	❒
Strongly disagree	❒
No opinion	❒

5. Please use this box if you wish to give a reason(s) for your view or if you wish to make any further comment on the proposal (if you need to continue on a separate sheet, please attach.)

Thank you for completing this Consultation Questionnaire.

Fire and Smoke Alarms in Scottish Homes

Report by Kevin Anderson, Executive Director - Place

Report for Noting

1 Recommendations

Council is recommended to note this report, advising that Scotland has become the first UK nation to legally require every home to have interlinked smoke alarms. Changes are being made to the Housing (Scotland) Act to ensure that everyone in Scotland has the same level of protection whether they own or rent their home.

2 Purpose of Report/Executive Summary

The legislation was introduced in 2019 following the Grenfell Tower fire disaster in London, but was delayed until 2022 due to the coronavirus pandemic. These rigorous standards have previously applied to new-build and private rented housing but from 1 February, 2022 the legislation will apply to all property owners, including those who own private homes. It will be the property owner's responsibility to pay for and install the alarms.

Date: 27 January 2022
Report Contact: Kevin Anderson, Executive Director - Place
email: kevin.anderson@midlothian.gov.uk
tel: 0131 271 3102

3 Background

Changes to the Housing (Scotland) Act are being made in the wake of the Grenfell Tower fire in which 71 people died.

The Scottish government gave the Scottish Fire and Rescue Service £1m to install the alarms in the homes of people assessed to be at high risk from fire. The government has also provided £500,000 to help disabled and older people meet the criteria.

All alarms should be ceiling mounted and interlinked. Interlinked alarms are connected so when one goes off they all go off, alerting people wherever they are in a house. The alarms can be interlinked by radio frequency. Every home must have the following:

- one smoke alarm installed in the room most frequently used for general daytime living purposes
- one smoke alarm in every circulation space on each storey, such as hallways and landings
- one heat alarm installed in every kitchen.

Where there is a carbon-fuelled appliance (such as boilers, fires - including open fires - and heaters) or a flue, a carbon monoxide detector is also required. This does not need to be linked to the fire alarms.

It is estimated that for an average three-bedroom house, which requires three smoke alarms, one heat alarm and one carbon monoxide detector, will be about £220.

This is based on using alarms that can be installed without the need for an electrician. These must be tamper-proof, long-life lithium battery alarms.

However, there are also alarms that can be connected to the mains which are cheaper but have to be installed by a qualified electrician which will incur an additional cost. Alarms that are connected to the mains need to be fitted by a qualified electrician.

Different home insurance policies provided by different insurers will have varying terms and conditions which a homeowner must comply with in order for their home insurance to be valid.

Homeowners should contact their home insurer to check whether the new requirements will be specifically included in their policy.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

There are no Council resource implications related to this report. The Council’s obligations as a landlord to have installed the fire and smoke alarm devices are met. The Scottish Fire and Rescue Service has already received £1m from Scottish Government to install alarms in homes of people at highest risk and the government has also provided £500,000 to help disabled and older people meet the criteria, with an extra allocation awarded prior to the regulations commencing form 1 February to Care and Repair Scotland, which intends to target some of this additional funding to Council areas that do not have a Care and Repair service.

There is not an established Care & Repair Service in Midlothian, although funding was previously provided to support a local enterprise to deliver these, however, that proved unsustainable and the service subsequently closed.

News | Care and Repair Scotland

4.2 Digital

There are no digital implications related to this report.

4.3 Risk

The legislation means that every home in Scotland must have interlinked fire alarms by February 2020. It will not be a criminal offence not to have the alarms fitted. Local authorities are officially responsible for enforcing the legislation but they will not be going into peoples' homes to inspect them and will not be issuing fines.

Any enforcement of the legislation sits with local authorities and this would be pursued through our Protective Services. The Houses of Multiple Occupation (HMO) requirements are not affected and Fire Service and Environmental Health Service inspections continue for those as previously.

However, Scottish Government have made clear prior to the enactment that there is no expectation of councils pursuing enforcement at this time for domestic properties.

The Scottish Government has indicated that councils could require homeowners to carry out work, but it did not expect them to go beyond advising property owners about fire alarms.

The government will use statistics from the Scottish House Condition Survey to assess overall compliance at a local authority level. Compliance will also form part of any Home Report when homes are put on the market.

4.4 Ensuring Equalities

The requirement is to have all alarms interlinked so people in the house will be alerted immediately.

4.5 Additional Report Implications

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Not applicable

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Modern
- ☐ Sustainable
- ☐ Transformational
- ☐ Preventative
- ☐ Asset-based
- ☐ Continuous Improvement

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

There are no direct implications related to this report.

A.5 Involving Communities and Other Stakeholders

Not applicable

A.6 Impact on Performance and Outcomes

Not applicable

A.7 Adopting a Preventative Approach

As a council we are encouraging householders to install the alarms to help save lives, we will not be penalising anyone who needs more time to comply with the new rules. Our approach, which takes into account people's individual circumstances and the pressure of the pandemic, is in line with the views of the Scottish Government and the umbrella organisation representation local councils across Scotland, CoSLA.

A.8 Supporting Sustainable Development

Not applicable

APPENDIX 1

Scottish Fire & Rescue Service Briefing Note.

Fire and Smoke Alarms in Scottish Homes

A briefing note for locally elected members

The law on fire alarms is changing.

By February 2022, all Scottish homes will need to have interlinked alarms.

The legislation has been introduced by the Scottish Government following of the Grenfell Tower fire in London in 2017, and it applies to all Scottish homes.

Interlinked means if one goes off, they all go off, and it is the property owner's responsibility for meeting the new standard.

Guidance and further information can be found via the Scottish Government website

SFRS' role – Home Fire Safety Visits

To protect the most vulnerable, SFRS will only fit interlinked alarms into owner-occupied homes where the individual/household is assessed as "high risk" through our Home Fire Safety Visit assessment process.

If the individual / household does not meet these criteria, staff will provide safety advice, information and details of the revised legislation during the visit. Interim detection can also be supplied if the property has no detectors at present.

However, we can't recommend products or installers. To request a Home Fire Safety Visit, contact us on 0800 073199 or text "FIRE" to 80800

Further Information

What each home needs

By February 2022 every home must have:

- one smoke alarm in the living room or the room you use most
- one smoke alarm in every hallway or landing
- one heat alarm in the kitchen.

All smoke and heat alarms should be mounted on the ceiling and be interlinked.

If you have a carbon-fuelled appliance – like a boiler, fire, heater or flue – in any room, you must also have a carbon monoxide detector in that room, but this does not need to be linked to the fire alarms.

Help with costs

It is the property owner's responsibility for meeting the new standard.

If you are a private tenant, your landlord is responsible.

If you are a council or housing association tenant, work is ongoing to make sure your home meets the new standards.

Elderly or disabled people may be eligible for support to fit interlinked alarms from Care and Repair Scotland. They can be contacted via careandrepairscotland.co.uk or by calling 0141 221 9879.

Types of alarms

You can use either sealed battery alarms or mains-wired alarms.

Both types of alarm are interlinked by radio frequency and do not need Wifi.

There is no list of approved suppliers or fitters, and SFRS can't recommend these however each alarm must comply with the following standards:

- smoke alarms: BS EN14604:2005
- heat alarms: BS 5446-2:2003
- carbon monoxide detector: British Kitemark EN 50291-1

Further information is available via ***Scottish Government website***