Notice of Meeting and Agenda

Midlothian

Audit Committee

Venue: **Virtual Meeting,**

Date: **Tuesday, 17 August 2021**

Time: **11:00**

Executive Director : Place

Contact:

Clerk Name: Janet Ritchie
Clerk Telephone:
Clerk Email: janet.ritchie@midlothian.gov.uk

Further Information:

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

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1 Welcome, Introductions and Apologies

2 Order of Business

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

3 Declaration of Interest

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

4 Minute of Previous Meeting

5 Public Reports

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Tuesday 28 September 2021 at 11.00 am.

Minute of Meeting

Midlothian

Audit Committee

Date	Time	Venue
Tuesday 22 June 2021	11.00 am	Virtual Meeting by MS Teams

Present:

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

In attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Fiona Robertson	Executive Director Children, Young People and Partnerships
Gary Fairley	Chief Officer Corporate Solutions
Derek Oliver	Chief Officer Place
Jill Stacey	Chief Internal Auditor
Stephen Reid	External Auditor, E.Y.
Grace Scanlin	External Auditor, E.Y.
Alan Turpie	Legal Services Manager
David Gladwin	Finance Manager
Saty Kaur	Executive Business Manager, Place Directorate
Myra Forsyth	Continuous Improvement Manager
Janet Ritchie	Democratic Services Officer

1. Welcome and Apology

The Chair, Mike Ramsay welcomed everyone to the meeting.

2. Order of Business

The order of business was as per the agenda previously circulated.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

4.1 The Committee, on a proposal by Councillor Muirhead, seconded by Councillor Smaill, approved the minute of the meeting of 4 May 2021 as a correct record.

Councillor Smaill highlighted a matter arising from the previous minute with regards to Item 5.3 where a discussion took place regarding Hillend and if the Audit Committee had a role in appraising this. After a brief update from Jill Stacey regarding a piece of work around capital investments within the Audit Plan and if there were any areas of concern that the Audit Committee Members had this could be incorporated within the Audit scope and reported back to the Audit Committee. Councillor Smaill agreed to meet with Jill Stacey to discuss this further.

Mr Anderson also confirmed that the projects will be presented in a report to the Council meeting for consideration next week and within that paper it defines the range of risks on an individual element and the programme itself and the discipline in terms of the gateway review process. He further advised that the paper also referenced that any material change beyond the cyclical reporting to Council would be brought forward for Member's information and any particular interest for the Audit Committee would be submitted accordingly.

The note of the Treasury Briefing held on 17 February 2021 was presented as an appendix to the minute for information. Jill Stacey highlighted a typo in the spelling of her name and it was agreed that this would be amended.

4.2 The Action log was submitted and the following noted:

1) 'Internal Audit Annual Assurance Report: 2019/20 - Risk Management Policy and Strategy: The Chair highlighted that at the last meeting it was indicated that the Risk Policy and Strategy would be presented to this meeting. Mr Oliver advised that the Quarter 4 report was presented to this meeting and provided an update to the Committee on the reasons why this paper was not presented today. Mr Oliver advised the committee on the formal review of Place Services and that within this review there will be the creation of Protective Services of which integrated risk management will form part of. He therefore suggested that the revised Policy and Strategy is brought back later this year once Protective services structure is in place.

Jill also indicated that the Internal Audit Review which will be presented to the next meeting of the Audit Committee makes reference to the Risk Management Policy and Strategy.

Mr Oliver also highlighted that with regards to Risk Management nothing had changed and that he was responsible for this. He also briefly provided the Committee on a draft timeline for the creation of Protective Services and that this would be a priority for this service therefore it was agreed that this would be presented to the December Audit Committee.

2) 'Annual Governance Statement 2019/20 – Financial Improvement Updates': Completed

3) Financial Reports – Council Meeting: Completed for this quarter. Ongoing.

4) Internal Audit Recommendations: Ongoing – to be presented in September 2021.

5) Treasury Management: EY to provide a report on Treasury Management - This item is on today's Agenda

6) February Briefing on Treasury Management - Note of the formal briefing to be circulated to members of the Audit Committee: completed.

7) Report on reconciliation of Social Housing work in progress and completions – Report to be circulated to Members of the Audit Committee when completed – Mr Smaill provided brief update and it was agreed this item would be carried forward: September 2021

8) Property Maintenance - BTSG report to be circulated to Members of the Audit Committee when completed – Mr Anderson provided a brief update and it was agreed this item would be carried forward: September 2021

9) Council House Building programme update – Report which will be presented to Council on 11 May 2021 to be circulated to Independent Members of the Audit Committee: Completed

5. Public Reports

Report No.	Report Title	Presented by:
5.1	Risk Management update Quarter 4 2020/21	Chief Officer Place
Outline of report and summary of discussion		
The purpose of this report was to provide Audit Committee with an update on the risk responses Midlothian Council has implemented during quarter 4 2020/21 to respond to the current risk climate; and to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of the identified risks. The report provides an overview of the significant risks faced by the Council during quarter 4 2020/21 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks.		

Derek Oliver presented this report highlighting the main sections contained within the report and in responding to various questions and comments he advised that: • With regards to the EU exit it was difficult to isolate specific EU exit impacts, however organisationally some information has been received from Scotland Excel with regards to some supplies and materials there may be price increases which will have a resulting impact on project costs. Although there has been nothing directly at this point this is definitely an emerging risk and anything which will have a Budget impact will be passed to the Finance Team. He also confirmed that this could also have a potential impact on Housing costs but reiterated that this may not just be EU exit related • With regards to Settled Status various forms of literature has been prepared and sent out both internally and externally. He further advised that HR have ensured that the workforce are aware of the deadline for this and the message has been pushed through the third sector for the wider community. In response to a question regarding the Child Abuse enquiry Gary Fairley provided a quick overview of the current position advising that the Government in partnership with COSLA have the redress scheme and discussions are ongoing in terms of local government's contribution to that. He further advised that the 2017 Act removed the time limit which means that Midlothian have 8 ongoing cases on and these are at different stages so the extent of any liability is still unknown. In terms of financial this sits as a contingent liability on the Council's Account. Mr Oliver then responded to questions regarding the pandemic risk advising that although the Pandemic risk was not necessarily on the list of risks there are other public health impacts covered with civil contingencies. In terms of COVID this was not listed but epidemics and endemics were and elements of control emergency plans were in place. With regards to a pandemic happening again a Pandemic Response plan is in place and is regularly being reviewed should there be a future pandemic of any variant. He further advised that the Council has to be responsive to the workforce and that pandemic response plans will ensure the risk is mitigated as much as possible. He further advised that the IJB also have identified risks for their workforce and that the ownership would have to be a collective response both the Council and the IJB. The Chair stated that the Risk Strategy due later in the year would provide further clarity on identifying the ownership of risks.
Decision
The Audit Committee noted the current risk landscape and organisational response to the most significant risks in quarter 4 2020/21.

Report No.	**Report Title**	**Presented by:**
5.2	Counter Fraud Annual Report 2020/21	Executive Director Place
Outline of report and summary of discussion		
The purpose of this report was to make the Audit Committee aware of the Council's counter fraud responsibilities and the activities of the Integrity Group and Corporate Fraud team over the past year as part of the arrangements to tackling fraud at the Council.		

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's resources for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices, are specific changes associated with the Counter Fraud Strategy approved by Council on 25 August 2020. Assurances about the effectiveness of the Council's existing systems and arrangements for tackling fraud can be taken from the outcomes contained within this report.

Kevin Anderson presented this report highlighting the main sections contained within the report. In responding to questions raised Kevin Anderson and Jill Stacey provided clarification with regards the aspects of fraud in relation to funding provided to businesses and it was noted that there are incidences of fraud across the country and that Edinburgh Council administer these funds on behalf of Midlothian Council. Any cases of fraud have been reported to Police Scotland for recovery. In addition Audit Scotland oversee the national fraud and that data matches are ongoing to review potential frauds which is also monitored by the Council's new Integrity Group on a monthly basis. A report will be presented to the Audit Committee next year on the conclusion of the National Fraud Initiative exercise. It was also noted that a key message is that Midlothian Council have robust preventative measures and investigation arrangement in place to address counter fraud activity.

Also raised was the write off of non-domestic rates and Gary Fairley advised that this is not fraudulent loss but rates not recovered, he further advised that to address the wider issue which has been raised by Members at Cabinet it was agreed that a briefing would be arranged in conjunction with Edinburgh Council to highlight what happens and what is open to the Council to address this. This has not been arranged due to Edinburgh Council managing the administration of Business Grants and Strategic Grants on behalf of the Government but the intention is that this will still be arranged. Further discussion took place regarding this issue and it was acknowledged this was not just with licensing but with the ownership of these buildings and the Members highlighted that this is an ongoing issue.

Decision

The Audit Committee noted:

a) The counter fraud work undertaken during the year to 31 March 2021 in support of the Council's counter fraud policy and strategy; and

b) The outcomes of the counter fraud activity 2020/21.

Report No.	Report Title	Presented by:
5.3	Draft Annual Governance Statement 2020/21	Chief Executive

Outline of presentation and summary of discussion

The purpose of this report was to propose that the Audit Committee considered and approved the draft Annual Governance Statement that would be published in the Council's Statement of Accounts 2020/21.

Midlothian Council is responsible for ensuring that its business was conducted in accordance with the law and proper standards, and that public money was safeguarded and properly accounted for, and used economically, efficiently and effectively. The Chief Executive presented this Report to the Committee and outlined the three recommendations detailed in the Report.
Decision
The Audit Committee : a) Considered the details of the draft Annual Governance Statement 2020/21 at Appendix 1 to ensure it reflected the risk environment and governance in place to achieve objectives, and acknowledge the actions identified by Management to improve internal controls and governance arrangements; b) Approved that it be published in the Council's Statement of Accounts 2020/21, noting the requirement for the final Annual Governance Statement to be signed by the Chief Executive and Leader of the Council at the conclusion of the external audit process; and c) Noted that from March 2020 the Council have been managing the response to the Covid-19 Pandemic which resulted in two "lockdown" periods during the course of 2020/21.
Action
Chief Executive/Leader of the Council

Report No.	Report Title	Presented by:
5.4	Wider Scope Review of Treasury Management	EY, External Auditors
Outline of presentation and summary of discussion		
This report has been prepared as part of the response to the annual wider scope risk assessment process. External auditors in the public sector have a wider remit under the Code of Audit Practice, than those in the private sector, including aspects of governance and financial management. The Focus of the review was the increased attention and scrutiny of treasury management, along with specific concerns expressed by members of the Audit Committee which led to the consideration of treasury management as an area of increased focus as part of the wider scope audit procedures in 2020/21. The report summarised the finding of the review, which focused on whether the Council's Treasury Management and Investment Strategy was in line with the principles of key guidance from CIPFA and whether the Council demonstrated that strategies had been applied in practice. Also considered was the quality and completeness of treasury management reporting to management, Audit Committee and the Council against the requirements established in the guidance.		

In presenting this report to the Committee Stephen Reid highlighted the main focus of the review and advised that there were 4 recommendations as a result of the review, three graded priority 2 and one graded priority 3.

Grace Scanlin then provided the committee with some key aspects contained within the report and further details with regards to the four recommendations.

Thereafter there followed a lengthy discussion and questions raised by the Committee

Councillor Milligan welcomed this report and made several comments in particular about the good work of Officers and highlighted that these Officers had not lost money for the Council they had in fact achieved a good revenue income back to the Council and asked for confirmation from Stephen Reid that the External Auditors agreed that Officers followed the guidance laid down by Council and the Audit Committee.

Stephen Reid confirmed that that there were no significant findings or high risk areas identified from the review although there are areas for enhancement but also highlighted that this was only one source of evidence and that the Committee also received the Internal Audit Report which also did not raise any significant findings or areas of high risk to bring to the Committee's attention.

Councillor Milligan then quoted a comment contained within the report 'The Council has historically managed to achieve on of the lowest weighted average borrowing rates when compared to other Scottish local authorities. The loans fund rate for the Council in 2020/21 is estimated to be 3.1%, against the 2019/20 weighted average across the sector of 3.7%.' He asked Mr Reid for an explanation as to why this comment was important and also if he could confirm that Treasury Management was managed by Midlothian Council Officers and that for at least the 10 years have been one of the best or second best performing area in Scotland.

In response Mr Reid advised that throughout the time he has been External Auditor there has been no significant findings raised with regards to the treasury management function of the Council.

In a further response to Councillor Milligan's comments Gary Fairley referred to the next item on the agenda, the Annual Treasury Management Outturn Report 2020/21 which highlights the weighted average borrowing and that this is a recognised benchmark across the sector in Scotland. He also confirmed that Midlothian has been either the highest or second highest performer during his time as Section 95 Officer. He then went on to provide some clarity on the financing of the investment of the Council's capital estate and with the level of performance this has resulted in a cash savings of £1.8 million which means the impact of capital investment on the Council's revenue budget and the housing revenue account are eased.

The Chief Executive commented that the statement 'weighted average borrowing' means that there is a greater return on the investments and the investments are relatively low risk so the return highlighted by Mr Fairley means that this return can be invested back into services. She further highlighted that this is good news in terms of the performance of the treasury management team.

Councillor Smaill also welcomed the recommendations in the report and commented on the borrowing and the savings we make. He also stated that there had been some debate as to who was responsible for the choice of our counterparties but this report makes it clear that it is the Section 95 Officer who is responsible for this. Councillor Smaill then advised on the reasons why he felt Midlothian Council should not have been associated with Croyden Council but acknowledged that we can move forward with the additional strengthening suggested by Ernest Young but to which the Audit letter should be added as discussed at the Briefing which is a public document and should also be reviewed by the Audit Committee.

Mr de Vink commented that it was stated for 10 years the treasury management was hugely successful but in his opinion for 10 years the Council has taken outrageous risks. He further stated that since joining the Audit Committee he has been highlighting the risk of being involved with deposits in Councils which are not respectable or are a financial or political risk. He then highlighted that Croyden could have been as bad as the Western Isles and the Council was very lucky in this situation, he felt that there should be a rule that we do not get involved in deposits with another council and should only be involved in instruments recognised by all careful financial institutions.

The Chief Executive expressed her thanks to the Treasury Management team on their performance as outlined by Councillor Milligan over a number of years has been excellent so wished to pass on her thanks to the team.

Councillor Milligan endorsed the comments by the Chief Executive and that the Audit Committee should send a ringing endorsement to this team who have done excellent work over the last 10 years. He further advised that as a Councillor he relies on the Finance Team to advise, Auditors to check and counter balance and External Auditors to supplement this and there is nothing in this report that does not support a ringing endorsement to the treasury management team. He further emphasised that if other services were performing at this level this would be celebrated therefore the work this team has done over the last 10 years should be acknowledged with a ringing endorsement.

Councillor Muirhead also agreed with the endorsement of the treasury management team and that they have performed extremely well over a number of years and deserve the Audit Committee’s congratulations.

Councillor Smaill emphasised that what was said should not be misunderstood and that we must be able to show that we have the strongest controls when we make deposits so the Ernest Young recommendations will allow us to strengthen our appeal to the market by augmenting our creditability. He also congratulated those involved and endorsed the recommendations.

The Chair advised that he would like other Councillors to comment as there were two Councillors who were making a ringing endorsement to the treasury management team and the results had been impressive over the last few years however but he did not read EY report as a ringing endorsement. He further stated that once the Audit Committee asked questions in December about the Croyden decision making process and whether the Auditors report had been taken into account at that time. Council Officers supplied a draft investment checklist after this which would be used in future to capture due diligence but he stated this was clearly not used with regards to the Croyden decision and as stated in this report that the checklist would be completed retrospectively for deposits placed in 2020.

The Chair stated that when he reviewed the Croyden reports which were available in 2019, the auditors wrote *'on the basis of the significance of matters identified with your levels of reserves and the matters relating to Children's services raised by Ofsted we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in use of resources we therefore propose to give a qualified adverse conclusion'.* He then advised that nowhere in these checklists is there any reflection of Croyden Council's Auditors comments which was public information in March 2020 and this was not taken into account in the decision making process.

He acknowledged that the Council has achieved good results the question that this report highlights to him is that due diligence was not fully functional at that time and if the Government had not bailed out Croyden we may have been in a different situation. He then raised the question of when the interest payments from Croyden were due to be paid and advised if these were paid in April this year we can then accept some assurance but if this is not paid until maturity it will not be known if money has been lost or not on this decision.

The Chair then commented that the overall treasury management results that have been achieved over previous years and as stated by the Chief Executive and other Members of the Committee contributed towards the provision of services in Midlothian. He then advised that his concern with this report was that it highlights that these were achieved but without the necessarily following all the treasury management practice guidelines in particular TMP3, in recording the decision making process at the time. He also stated that the payment mechanisms require two senior officials to sign off payments over £50,000 and the payment of £30,000 was transferred to Croyden which would be signed off by Section 95 Officer and another senior officer so acknowledged some kind of due diligence was done but does require some improvement.

He further advised that he did not agree with a ringing endorsement but would endorse what has been achieved so far but stated that these results need to be achieved by doing the work properly.

Mr de Vink stated that it is the risk aspect that is important and even although the Council has had a fantastic 10 year record, if the risk is such that it could make the Council the worst and it is not worth taking the risk.

Mr Fairley in responding to some of the questions and comments raised advised that the interest due from Croyden was paid in full on the anniversary of the loan which brought to the Council an income of £240,000 advising that this was the per annum figure and over the 2½ yr term of the loan is around £601,000 income.

He then responded to the comments regarding the due diligence carried out and the status of this and advised that as the Section 95 Officer he was comfortable with the due diligence that was carried out by himself and the team. He also reiterated that the internal local authority lending market is well established and as set out in the treasury management strategy the status of those deposits is UK government backed. Mr Fairley advised that the activity that took place in April 2020 refinanced deposits that the Council had with a number of financial institutions and shifted those deposits over to the internal local authority market again bringing the security of the UK Government

Mr Fairley then stated that clearly there are a number risks around treasury management and the inter authority loan that the Council has brings the return with an interest rate of 1.85% and while there are other alternatives that the Audit Committee could recommend to Council for example place the surplus funds within the debit management office of UK Government but over the last year they have been charging to deposit funds and this would have an significant impact on the Council's revenue budget.

Councillor Smaill commented that we have to borrow to make these deposits and we are still left with the question of reputational risk to the Council and advised on the 4 occasions where reputational risk to the Council has occurred. He stated that beyond the financial consideration there is the question of the ethics of going to any entity including a local authority who does not have adequate corporate governance standards.

Councillor Cassidy welcomed the questions and comments with regards to due diligence and stated that if we were not carrying this out we would be neglecting our duty as an Audit Committee.

Councillor Milligan also advised that he welcomed the questions raised and in reference to a point raised by the chair regarding the risk to treasury management which is managed by professionals and he further stated that as he is not qualified in financial management he takes advice from those professionals. He further went on to say irrespective if there are some short comings in the way this was dealt with he asked the question again to Stephen Reid *'Did Council Officers carry out their treasury activity in accordance with the Strategy approved by Council and endorsed by this Audit Committee or have they shifted away from thi*s?

Stephen Reid repeated what he said earlier and what is reflected in the report which has been presented today in that they identified 3 priority 2 and 1 priority 3 and no priority 1 recommendations. The definition of that priority rating is provided in the report so hence there is no significant findings that has been identified in the scope of the work that has been undertaken to date. He further advised that during the term of his appointment at External Auditor there has been no significant findings identified or reported in respect of treasury management.

Mr Reid in providing clarity on his role and the role of the Audit Committee advised that there are two elements and it was important for the Audit Committee to focus on these, the Treasury Management Strategy and procedures which Officers execute against and those are key governance documents which are subject to review and consideration on periodic basis and then approval by Council. He further stated that the Council ultimately approves the policy and that today the discussion has drifted into what is appropriate investments or borrowing and those are questions which are fundamentally for Council to make a decision on and not one that External Auditors would make a comment on. Mr Reid further advised that his responsibility was commenting on the governance arrangements and it was an important distinction that the Audit Committee needed to consider in fully discharging its governance role in going forward.

Councillor Smaill raised a point for noting with regards to the position of Link and that this was not part of competitive tendering and felt this was not a good example to set to other parts of the Council where it is very important that we stick to the schedule of competitive tenders and also exceptional circumstances one single appropriate supplier.
Decision
The Audit Committee endorsed the recommendations as set out in the report:

Report No.	Report Title	Presented by:
5.5	Annual Treasury Management Outturn Report 2020/21	Chief Officer Corporate Solutions
Outline of presentation and summary of discussion		
The purpose of the report was to inform members of the Audit Committee of the Treasury Management activity undertaken in 2020/21 and the year-end position. The Code recommends that Treasury reports are presented to and scrutinised by Audit Committee in advance of being considered by Council. The report was being presented to Audit Committee on 22 June 2021 and subsequently to Council, and will be updated to reflect any comments that the Audit Committee have. Mr Fairley in presenting this report highlighted the main points arising from treasury activity in 2020/21. In conclusion Mr Fairley advised that the cost of borrowing was being maintained and a better than average return on deposits had been achieved and Midlothian continues to perform above the Link model benchmarks. The Chair commented on how well the team have done on getting the average rate of borrowing to an extremely low level and thereafter asked members for any questions with regards to this report. Mr Fairley in responding to a questions regarding borrowing, deposits and the carry cost he advised that the strategy is to cash back reserves and to secure long term external borrowing to fund the asset base. He then gave an example if they had taken the loan in April this year but left it to now then the rate would have been higher which would have resulted an additional cost on the life time of the loan. Councillor Smaill further asked for an explanation on the carry cost and the Chair explained that the carry cost is the difference in rates from borrowing and deposits. Mr Fairley provided an explanation advising that if we borrowed long term before we spent money to pay contractors then we would have cost of carry but he highlighted the Council is under borrowed so it is the opposite position as not enough has been borrowed to fund the capital investment long term so do not have a cost of carry.		

In responding to a question form the Chair on clarity of not borrowing more than we need Mr Fairley advised that deposits with other local authorities and financial institutions are the cash reserves that the Council has. Mr de Vink asked for clarity on the significant investment in Hillend Ski slope and it was explained that this was on the Agenda for the Council on 29 June 2021 and that the full Council may remit elements to the Audit Committee if appropriate. In responding to a point raised by Councillor Smaill with regards to the various projects and any issues which may arise Mr Fairley and confirmed that was a very important point and the General Services Capital Plan report which will be presented to Council on 29 June 2021 and sets out the position clearly against the original plans. He further advised that there will be the quarterly monitoring reports on the general services capital plan and that work was ongoing with the two new development officers on how these can be enhanced.
Decision
The Audit Committee noted the Annual Treasury Management Report 2020/21.
Action
Chief Officer Corporate Solutions

Report No.	Report Title	Presented by:
5.6	Unaudited Financial Statements 2020/21	Chief Officer Corporate Solution
Outline of presentation and summary of discussion		
The Financial Statements are expected to be concluded around the 30 June 2021 therefore it was agreed that a further Audit Committee would be arranged prior to the end of August 2021.		
Decision		
Democratic Services would arrange a further Audit Committee to consider the unaudited Financial Statements prior to the end of August.		
Action		
Democratic Services		

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

The next scheduled meeting will be held on Tuesday 28 September 2021 at 11.00 am

The meeting terminated at 12.57 pm.

Midlothian

Action Log

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	**Internal Audit Annual Assurance Report 2019/20 – Risk Management Policy and Strategy**	22/06/2020	Agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy	Chief Officer Place	December 2021	Linked to update of Local Code. Internal Audit review of Risk Management underway in Q1 2021/22
2	**Annual Governance Statement 2019/20 – Financial Improvement Updates**	22/06/2020	Agreed that regular financial improvement updates would be provided by the Chief Officer Corporate Solutions (Section 95 Officer) to the Audit Committee	Chief Officer Corporate Solutions (Section 95 Officer)	Completed	First update reported to the December 2020 meeting. Further report presented to the May 2021 meeting. Completed
3	**Financial Reports – Council Meeting - 25 August 2020**	18/08/2020	Send reports to the Independent Member of the Audit Committee	Democratic Services	Ongoing	Future Reports with a financial element relevant to Audit to be made available to the Independent Members of the Audit Committee.
4	**Internal Audit Recommendations**	09/03/2021	Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.	Chief Internal Auditor	September 2021	Two follow-up reports per year to Audit Committee as per approved Internal Audit Annual Plan.

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
5	**Treasury Management**	04/05/2021	EY or provide a report on Treasury Management	EY, External Auditors	Completed	
6	**February Briefing on Treasury Management**	04/05/2021	Note of the formal briefing to be circulated to members of the Audit Committee.	Democratic Services	Completed	
7	**Report on reconciliation of Social Housing work in progress and completions**	04/05/2021	Report to be circulated to Members of the Audit Committee when completed.	Kevin Anderson	TBC	
8	**Property Maintenance**	04/05/2021	BTSG report to be circulated to members of the Audit Committee when completed.	Kevin Anderson	TBC	
9	**Council House Building Programme update**	04/05/2021	Report which will be presented to Council on 11 May 2021 to be circulated to Independent Members of the Audit Committee.	Democratic Services	Completed	

Audit Committee Annual Report 2020/21

Report by Chair of Audit Committee

Report for Decision

1 Recommendations

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

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Members with the Audit Committee Annual Report 2020/21, which sets out how the Audit Committee has fulfilled its remit and provides assurances to the Council, and the annual self-assessments of the Committee against best practice.

It is important that the Council's Audit Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.

The Audit Committee Annual Report 2020/21, which is appended to this report as Appendix 1 for consideration, is intended both to provide assurance to full Council and to identify areas of improvement which are designed to enhance the Audit Committee's effectiveness as a scrutiny body. Midlothian Council continues to adopt this best practice.

Date 16 July 2021

Report Contact:
Jill Stacey Tel No
jill.stacey@midlothian.gov.uk

3 Background

3.1 It is important that the Council's Audit Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition (hereinafter referred to as CIPFA Audit Committees Guidance). It incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police which sets out CIPFA's view of the role and functions of an Audit Committee. The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit Committee against its remit for submission to the Council.

4 Audit Committee Annual Report 2020/21 and Self-Assessments

4.1 The Audit Committee Annual Report 2020/21, which is appended to this report as Appendix 1 for consideration, is intended both to provide assurance to full Council and to identify areas of improvement which are designed to enhance the Audit Committee's effectiveness as a scrutiny body. Midlothian Council continues to adopt this best practice.

4.2 The Audit Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during an Informal Session on 4 May 2021 facilitated by the Chief Internal Auditor. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration.

4.3 The outcome of the self-assessments was a medium degree of performance against the good practice principles and a medium degree of effectiveness. Improvements were identified focussing on activity to improve its effectiveness in fulfilling its role. In summary these are:

- Utilise the CIPFA Skills and Knowledge toolkit.
- Obtain feedback on its performance from a range of Executive Directors and others who interact with the Committee.
- Review and scrutinise the Risk Management Policy and Strategy on a regular basis.
- Understand the effectiveness of other Committees fulfilling their remits on which the Audit Committee places reliance.
- Continue to ensure the application in practice of the Audit Committee's treasury management scrutiny role in advance of Council approval.
- Enhance scrutiny and challenge on its Action Log to ensure that Audit Committee recommendations had been recorded and monitored to ensure they were fully implemented to its satisfaction.
- Schedule a recruitment, selection and appointment process for the independent members of the Audit Committee prior to May 2022 local government elections to enable those appointed to benefit from the elected members' induction programme.

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

5.1 Resource

The Council has provided support and resources to the Audit Committee throughout the year including a Democratic Services Officer as the Minute secretary.

In terms of accountability and independence to ensure conformance with the Public Sector Internal Audit Standards (PSIAS), the Chief Internal Auditor reports functionally to the Audit Committee as outlined within the Internal Audit Charter. The Chief Internal Auditor facilitated the annual self-assessment process and the prepared the Audit Committee Annual Report on behalf of the Chair.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The role of the Audit Committee includes the high level oversight of the effectiveness of the Council's systems of internal financial control, internal control and governance, including risk management.

There is a risk that the Audit Committee does not fully comply with best practice guidance thus limiting its effectiveness as a scrutiny body as a foundation for sound corporate governance. The completion of the annual self-assessment and identification of improvement actions as evidenced through this Annual Report will mitigate this risk.

5.4 Ensuring Equalities

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

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Self-assessment of the Audit Committee utilising best practice toolkits underpins its own continuous improvement to ensure that modern and sustainable governance arrangements are in place.

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

Self-assessment of the Audit Committee utilising best practice toolkits underpins its own continuous improvement to enhance its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

The Audit Committee in fulfilling its governance role acts as a bridge between the Council and other stakeholders.

A.6 Impact on Performance and Outcomes

The members of the Audit Committee have reflected on the performance and outcomes against the remit of the Committee through the completion of annual self-assessments. The identification of improvement actions as evidenced through the Audit Committee Annual Report are designed to enhance its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.

A.7 Adopting a Preventative Approach

Assurances received by the Audit Committee from Management, Internal Audit and External Audit set out the assessment of prevention and detection internal controls and governance arrangements.

A.8 Supporting Sustainable Development

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

APPENDIX 1

MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2020/21

This annual report has been prepared to inform the Midlothian Council of the work carried out by the Council's Audit Committee during the financial year. The content and presentation of this report meets the requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) to report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

Meetings

There were virtual meetings of the Audit Committee 5 times during the financial year which included meetings on 22 June, 18 August (additional), 12 October, 8 December 2020, and 9 March 2021 to consider reports pertinent to the audit cycle and its terms of reference. The meetings scheduled on 26 May 2020 and 26 January 2021 were cancelled due to pandemic lockdown restrictions.

The Audit Committee is a key component of Midlothian Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the audit committee is to provide independent assurance to elected members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Midlothian Council's governance, risk management and control frameworks, and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The Audit Committee reviewed the draft Annual Governance Statement 2019/20 at its meeting on 22 June 2020 in order to assess whether it properly reflects the risk environment and whether the content is consistent with its evaluation of the internal controls and governance arrangements based on evidence received during the year. The Audit Committee scrutinised the unaudited Annual Accounts 2019/20 of the Council at its additional meeting on 18 August 2020, having not received them as originally expected for consideration at its meeting on 22 June 2020 but received them by email on 30 June 2020. It reviewed the final audited accounts at its meeting on 12 October 2020 alongside the External Audit report on their annual audit 2019/20 to consider any concerns or improvements arising from the audit, prior to recommending to the Council that they be adopted. The Audit Committee scrutinised the Annual Report and Accounts of the Council at appropriate times in accordance with its terms of reference, which also includes the promotion of good governance, and financial and ethical standards.

The Audit Committee approved the Internal Audit Charter, and the Internal Audit Strategy and Annual Plan. It monitored Internal Audit's performance including progress against annual plan, conformance with Public Sector Internal Audit Standards (PSIAS), and quality assurance and improvement plan (QAIP) within Internal Audit mid-term performance and annual assurance reports, and considered the statutory annual audit opinion within the Internal Audit Annual Assurance Report. It considered Internal Audit's reports which set out executive summaries of findings, audit opinions, good practice and recommendations associated with each assurance review, as well as other work. It monitored the implementation of agreed actions through receipt of two reports during the year from Internal Audit.

The Audit Committee has reviewed the External Audit Strategy and Plan Overview for Midlothian Council, considered External Audit reports including the annual report to Members and the Controller of Audit on the annual audit of the Council, reviewed the main issues arising from the External Audit of the Council's statutory accounts, and monitored the implementation of agreed actions arising.

The Audit Committee received quarterly update reports from the Risk Manager during the year on corporate risks and mitigations, to ensure it has oversight of the effectiveness of the risk management process. At its meeting in June 2020 the Committee agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy.

The Audit Committee considered the adequacy and effectiveness of the Council's counter fraud arrangements by way of an annual report which set out the counter fraud activity and outcomes, and received assurances from Auditors on fraud risks and controls and from the Integrity Group on counter fraud controls assessment.

The Audit Committee is the governance body responsible for scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval, in accordance with the CIPFA Treasury Management Code of Practice. In response to a previous Internal Audit recommendation, plans were put in place for the 2020/21 schedule of meetings to ensure the sequencing of all three treasury management reports presentation to enable the Audit Committee to effectively fulfil its role on scrutiny of treasury management. Audit Committee scrutiny in advance of Council approval occurred in-year for the annual treasury management report 2019/20 at its meeting on 22 June 2020 and for the mid-term treasury management report 2020/21 at its meeting on 8 December 2020. The planned opportunity for Audit Committee scrutiny of 2021/22 treasury management strategy in advance of Council approval did not occur due to the cancellation of the January 2021 Audit Committee meeting during the second pandemic lockdown period. However, a Briefing for all elected members on the 2021/22 treasury management strategy was held on 17 February 2021, to which the two independent Members of the Audit Committee were also invited.

The minutes of Audit Committee meetings were presented for approval by the Council, and any exceptional items or recommendations were referred to the Council in accordance with the remit.

Membership

The Membership of the Audit Committee is part of the Council's approved Scheme of Administration (amended June 2017) namely being six Members of the Council and two non-voting members appointed from an external source. Two of the six Elected Members on the Audit Committee are in the Cabinet (Committee with executive decision-making powers), which is not in compliance with CIPFA audit committee good practice on membership i.e. separation from the executive. However, the current membership reflects the Council's approved Scheme of Administration i.e. there should be a one third equal split on all Committees reflecting the number of Councillors for each political party, and the Audit Committee operates with an independent Chair and a second independent member to provide the opportunity for independent scrutiny and challenge. The two non-voting external members were appointed from the community following a recruitment and selection process carried out during 2017.

The Committee membership during the year included Mr M Ramsay (Chair), Councillors C Cassidy, A Hardie, D Milligan, J Muirhead, K Parry and P Smaill, and Mr P De Vink.

The attendance by each member at the Committee meetings throughout the year was as follows:

Member	**22 June 2020**	**18 August 2020**	**12 October 2020**	**8 December 2020**	**9 March 2021**
Mr M Ramsay (Chair)	√	√	√	√	√
Cllr C Cassidy	√	√	√	√	√
Cllr A Hardie		√	√	√	√
Cllr D Milligan		√	√	√	√
Cllr J Muirhead	√	√	√		
Cllr K Parry		√	√	√	
Cllr P Smaill	√	√	√	√	√
Mr P De Vink	√	√		√	√

Every meeting of the Audit Committee in 2020/21 was quorate (i.e. at least three elected members present). Cllr D Alexander attended the March 2021 meeting as a substitute for Cllr K Parry.

All other individuals who attended the meetings are recognised as being "In Attendance" only. The Chief Executive, Executive Directors, Chief Officer Corporate Solutions (Section 95 Officer), External Audit (EY), and Internal Audit attend all Audit Committee meetings, and other senior officers also routinely attend Audit Committee meetings. The Council has provided support and resources to the Audit Committee throughout the year including a Democratic Services Officer as the Minute secretary.

Skills and Knowledge

Given the wider corporate governance remit of Audit Committees within local government and the topics now covered by the external and internal audit functions, it is noteworthy that there is a range of skills, knowledge and experience that Audit Committee members bring to the committee, not limited to financial and business management. This enhances the quality of scrutiny and discussion of reports at the meetings. No one committee member would be expected to be expert in all areas.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit Committee on 4 May 2021 during an Informal Session facilitated by the Chief Internal Auditor using the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance. This was useful for Members to ensure the Committee can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.

The outcome of the self-assessments was a medium degree of performance against the good practice principles and a medium degree of effectiveness. Improvements were identified focussing on activity to improve its effectiveness in fulfilling its role. In summary these are:

- Utilise the CIPFA Skills and Knowledge toolkit.
- Obtain feedback on its performance from a range of Executive Directors and others who interact with the Committee.
- Review and scrutinise the Risk Management Policy and Strategy on a regular basis.
- Understand the effectiveness of other Committees fulfilling their remits on which the Audit Committee places reliance.
- Continue to ensure the application in practice of the Audit Committee's treasury management scrutiny role in advance of Council approval.
- Enhance scrutiny and challenge on its Action Log to ensure that Audit Committee recommendations had been recorded and monitored to ensure they were fully implemented to its satisfaction.
- Schedule a recruitment, selection and appointment process for the independent members of the Audit Committee prior to May 2022 local government elections to enable those appointed to benefit from the elected members' induction programme.

Informal Sessions have been arranged prior to each of the remaining Audit Committee meetings during 2021/22 to enable these improvements to be progressed and fully implemented.

Assurance Statement to the Council

The Audit Committee provides the following assurance to the Council:

- The Council has received the Minutes of the Audit Committee throughout the year.
- The Audit Committee has operated in accordance with its agreed terms of reference, covering the themes of Governance, Risk and Control, Internal Audit, External Audit, Financial Reporting, and Accountability Arrangements, and accordingly conforms to the Audit Committee principles within the CIPFA Position Statement for Audit Committees.

- It focused entirely on matters of risk management, internal control and governance, giving specialist advice to the Council on the value of the audit process, on the integrity of financial reporting and on governance arrangements, and acted as a bridge between the Council and other stakeholders. It did this through material it received from Internal Audit, External Audit, other Audit bodies, and assurances from Management relevant to audit cycle of reporting.
- The Audit Committee has reflected on its performance during the year, and has agreed areas of improvement to enable it to fulfil its scrutiny and challenge role and to enhance its effectiveness.

Within the Internal Audit Annual Assurance Report 2019/20 that was presented to the Audit Committee in June 2020 it was stated that Members were not aware of when the Risk Management Policy and Strategy were most recently reviewed and scrutinised. In response the Audit Committee agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy with the action assigned to the Waste, Risk and Resilience Manager and an expected completion date of January 2021. This is still awaited, has been twice delayed from the original expected completion date, though a revised expected completion date of December 2021 has been agreed with the Chief Officer Place. It is important that the Audit Committee is given the opportunity to regularly scrutinise the Risk Management Policy and Strategy as the basis of the Council's risk management framework in order that the Audit Committee is able to fulfil its oversight role to monitor the effective development and operation of risk management in the Council.

During the year, as a result of reviewing a number of reports in different areas, along with the recommendation follow-up reports, the Audit Committee became concerned at the length of time taken by Management to address Internal Audit recommendations. The impression has been given that Management monitoring (the "second line") is not receiving the attention it merits, and the Audit Committee looks forward to seeing noticeable improvement in the coming year as the Management restructure and post pandemic situation settles.

Recommendation of the Terms of Reference for the Audit Committee for the coming year

This report and the annual self-assessment indicate that two of the six Elected Members on the Audit Committee are in the Cabinet (Committee with executive decision-making powers), which is not in compliance with CIPFA audit committee good practice on membership i.e. separation from the executive. The Council is requested to give consideration to excluding the Audit Committee membership from the Scheme of Administration requirement (i.e. there should be a one third equal split on all Committees reflecting the number of Councillors for each political party), or consider an alternative arrangement, to enable the Membership of the Audit Committee to comply with the Membership requirements set out in the CIPFA audit committee good practice, i.e. separation from the executive. This would enhance the Audit Committee's independence in the high level scrutiny and oversight of internal controls, risk management and governance arrangements.

Mike Ramsay
Chairman of Audit Committee
16 July 2021

CIPFA ‘audit committees’ Practical Guidance for Local Authorities and Police 2018 Edition

Midlothian Council Audit Committee – self-assessment of Good Practice at 4 May 2021

Audit committee purpose and governance	Yes/Partly /No	Comments
Does the authority have a dedicated audit committee?	Yes	The Council’s Scheme of Administration approved in May 2017 lists the composition of the Council and its various Committees, including the Audit Committee.
Does the audit committee report directly to full council?	Yes	All Minutes of Audit Committee are circulated to full Council for noting and approval of any of their recommendations. An annual report is submitted by the Chair of the Audit Committee to full Council.
Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA’s Position Statement?	Yes	Terms of Reference of the Audit Committee are periodically reviewed against CIPFA’s best practice by the Chief Internal Auditor. Revisions to its Terms of Reference were approved by Council in August 2019 arising from an update to CIPFA’s Position Statement in 2018.
Is the role and purpose of the audit committee understood and accepted across the authority?	Yes	The role and purpose of the Audit Committee is set out in the Council’s Scheme of Administration including what it can do, the arrangements for meetings, required quorums etc. References to the role of the Audit Committee are made and draft agendas and reports are presented to the Corporate Management Team by the Chief Internal Auditor in advance of each Audit Committee meeting.
Does the audit committee provide support to the authority in meeting the requirements of good governance?	Yes	The Audit Committee carries out the role set out in the Terms of Reference contributing to the Council’s governance framework which is set out in the Local Code of Corporate Governance approved by Council in March 2021. All Minutes of the Audit Committee are circulated to full Council for noting and approval of any recommendations.
Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	The Audit Committee annually reviews its terms of reference as part of it carrying out a self-assessment of performance using best practice checklists. An annual report is submitted by the Chair of the Audit Committee to full Council. It sets out the activities to enable stakeholders to understand how the Audit Committee has discharged its duties and identifies areas of improvement to fulfil its remit. MLC continues to adopt this best practice.

CIPFA ‘audit committees’ Practical Guidance for Local Authorities and Police 2018 Edition

Midlothian Council Audit Committee – self-assessment of Good Practice at 4 May 2021

Functions of the committee	Yes/Partly /No	Comments
Do the committee’s terms of reference explicitly address all the core areas identified in CIPFA’s Position Statement?		
• good governance	Yes	Functions in Terms of Reference Nos. 1, 3 & 4
• assurance framework, including partnerships and collaboration arrangements	Yes	Assurance Framework function in Terms of Reference No. 6 and explicit references to these service delivery models in Nos. 3, 6 & 7 within the revised Terms of Reference approved by Council in August 2019.
• internal audit	Yes	Functions in Terms of Reference Nos. 13-24
• external audit	Yes	Functions in Terms of Reference Nos. 25-29
• financial reporting	Yes	Functions in Terms of Reference Nos. 30-31
• risk management	Yes	Functions in Terms of Reference Nos. 6-8
• Value for money or best value	Yes	Function in Terms of Reference No. 5
• Counter-fraud or corruption	Yes	Functions in Terms of Reference Nos. 9-11
• Supporting the ethical framework	Yes	Function in Terms of Reference No. 12 Treasury Management and explicit references to ethics in Functions 3 & 19 within the revised Terms of Reference approved by Council in August 2019.

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Midlothian Council Audit Committee – self-assessment of Good Practice at 4 May 2021

Functions of the committee (cont’d)	Yes/Partly /No	Comments
Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	The Audit Committee annually reviews its terms of reference as part of it carrying out a self-assessment of performance using best practice checklists. The 2020/21 annual self-assessment was undertaken by members of the Audit Committee on 4 May 2021 using CIPFA’s good practice checklist and effectiveness toolkit.
Has the audit committee considered the wider areas identified in CIPFA’s Position Statement and whether it would be approriate for the committee to undertake them?	Yes	The Audit Committee is responsible for scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval (Audit function no. 12), in accordance with the CIPFA Treasury Management Code of Practice. This scrutiny occurred during 2020/21 at Audit Committee meetings with the exception of the 2021/22 treasury management strategy, as the January 2021 Audit Committee meeting was cancelled during the second pandemic lockdown period; however a Briefing was held on 17 February 2021 for all elected members, to which the two independent Members of the Audit Committee were also invited. A note of this Briefing is awaited.
Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes	The Audit Committee Terms of Reference covers core areas.
Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes	The Audit Committee Terms of Reference is limited to governance, risk and control; it is non-decision-making though does have an advisory function to recommend improvements to Council within its remit.

CIPFA 'audit committees' Practical Guidance for Local Authorities and Police 2018 Edition

Midlothian Council Audit Committee – self-assessment of Good Practice at 4 May 2021

Membership and support	Yes/Partly /No	Comments
Has an effective audit committee structure and composition of the committee been selected? This should include: • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • consideration has been given to the inclusion of at least one independent member	Yes*	*No (1st bullet) - Two of the six Elected Members on the Audit Committee are in the Cabinet (Committee with executive decision-making powers), reflecting the arrangements set out in the Council's Scheme of Administration i.e. there should be a one third equal split on all Committees reflecting the number of Councillors for each political party. The Audit Committee operates with an independent Chair and a second independent member to provide the opportunity for independent scrutiny and challenge. Yes (2nd 3rd and 4th bullet points) – Committee comprises of six Elected Members and two independent members (one of which is the Chair) who have a mix of skills, knowledge and experience.
Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?	Yes	An external recruitment, selection and appointment process was undertaken in 2017 for independent members on the Audit Committee. Action required: A recruitment, selection and appointment process for the independent members of the Audit Committee to be scheduled prior to May 2022 local government elections to enable those appointed to benefit from the elected members' induction programme.
Does the chair of the committee have appropriate knowledge and skills?	Yes	The independent Chair of the Audit Committee has previous experience of chairing meetings and a previous career within the financial sector.
Are arrangements in place to support the committee with briefings and training?	Yes	The Briefing on Treasury Management (February 2021) was undertaken to enhance skills and knowledge in this technical area. Informal Sessions during the year are used for development purposes.
Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	No	Improvement identified in 2019/20 self-assessment has been delayed and will be carried forward: Utilise the CIPFA Skills and Knowledge toolkit.
Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	The Chair meets with Chief Internal Auditor (CIA) in advance of each Audit Committee meeting and has the option to meet with External Auditors, EY, in private. The Chair has a pre-meeting with senior management prior to each Audit Committee meeting (except March 2021). Informal Sessions are scheduled prior to each meeting.
Is adequate secretariat and administrative support to the committee provided?	Yes	A Democratic Services Officer is assigned to the Audit Committee.

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Midlothian Council Audit Committee – self-assessment of Good Practice at 4 May 2021

Effectivenss of the committee	Yes/Partly /No	Comments
Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Partly	External Audit comment on Audit Committee as part of Governance within the Annual Audit Report. Improvement identified in 2019/20 self-assessment has been delayed and will be carried forward: The Audit Committee will obtain feedback on its performance from CMT, and will hold a private meeting with external auditor, EY.
Are meetings effective with a good level of discussion and engagement from all members?	Yes	As reflected in the Minutes of the Committee.
Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	Yes	The Chief Executive, Directors, and Section 95 Officer attend all Audit Committee meetings and respond to members’ questions as appropriate for the business being considered by the Committee to ensure action findings and action plans are acted upon. The Risk Manager presents a quarterly update to the Committee setting out the corporate risks and mitigations.
Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	Yes	Recommendations are made by the Committee to Council in accordance with the business considered by the Committee. An Action Tracker for Audit Committee is in place to monitor completion of their recommended actions.
Has the committee evaluated whether and how it is adding value to the organisation?	Yes	The Audit Committee carries out an annual self assessment of performance against the CIPFA good practice checklist and the effectiveness toolkit from the CIPFA guidance 2018 ‘audit committees’, the latter enabling evaluation of how effectively it fulfils its Audit functions. The 2020/21 self-assessment was carried out on 4 May 2021 during an Informal Session.
Does the committee have an action plan to improve any areas of weakness?	Yes	As part of its annual self-assessment 2020/21 the Committee has recognised where it could improve in respect of its scrutiny and challenge role to fulfil its remit and to further add value. Improvements are set out within the Audit Committee Annual Report 2020/21.
Does the committee publish an annual report to account for its performance and explain its work?	Yes	The Audit Committee Annual Report is presented to the Council each year. It sets out the activities to enable stakeholders to understand how the Committee has discharged its duties. MLC continues to be a lead authority in adopting this best practice.

Midlothian

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
1. Promoting the principles of good governance and their application to decision making	Supporting the development of a local code of governance. Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it. Working with key members/governors to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	Committee scrutinised Local Code of Corporate Governance, and recommended it for Council approval, and scrutinised AGS within Annual Report and Accounts. Pre-Meet with Chair prior to each Committee meeting (except March 2021). Committee supports the role of audit in improving internal control and governance. Committee considers national reports and self-assessment toolkits. Reliance on prior year informal liaison with other Audit Committees e.g. MIJB.	4 (2019/20 4)
2. Contributing to the development of an effective control environment.	Actively monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.	Committee received periodic progress reports from Auditors e.g. follow-up activity. Directors attended Committee meetings to discuss progress with Audit actions. Action Log used to monitor completion of Committee recommendations.	4 (2019/20 4)
3. Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, e.g. risk management benchmarking. Monitoring improvements. Holding risk owners to account for major/strategic risks.	The report requested in June 2020 on the review and scrutiny of the Risk Management Policy and Strategy is still awaited (twice delayed from original December 2020 target). Committee received quarterly reports from Risk Manager on corporate risks and mitigations, with Directors in attendance.	3 (2019/20 3)

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
4. Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, e.g. internal audit, risk management, external audit.	Annual Strategies and Plans and periodic progress Reports received from Auditors. Induction programme outlined Governance and Assurance Framework and Audit Cycle. Reliance on other Committees fulfilling their remits; need to understand effectiveness.	4 (2019/20 4)
5. Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements, providing constructive challenge and supporting improvements. Actively supporting the quality assurance and improvement programme (QAIP) of internal audit.	Committee considered and approved the Internal Audit Charter. Committee considered and approved the Internal Audit Strategy and Plan, and regular Internal Audit reports with recommendations. Committee received Internal Audit QAIP and PSIAS conformance within mid-term performance and annual assurance reports.	4 (2019/20 4)
6. Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	Reviewing how the governance arrangements support the achievement of sustainable outcomes. Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	Auditors provided assurance reports on governance arrangements for transformation, and financial sustainability. Reliance on other Committees fulfilling their remits (Business Transformation Steering Group; Performance, Review and Scrutiny); need to understand their effectiveness.	4 (2019/20 4)
7. Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the Annual Governance Statement (AGS).	Auditors provided assurance on value for money arrangements e.g. transformation, sustainability, and performance management. AGS sets out the Governance Framework including arrangements for best value. Best Value Action Plan presented to Council.	4 (2019/20 4)

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
8. Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014). Reviewing fraud risks and the effectiveness of the organisation’s strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors.	Committee received Counter Fraud Annual Report, and endorsed the refreshed Counter Fraud Policy and Strategy for approval. Auditors provided assurance reports on fraud risks and counter fraud controls, and recommended improvements which were endorsed by the Committee.	4 (2019/20 4)
9. Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encourages greater transparency. Publishing an annual report from the committee.	Committee scrutinised Annual Report and Accounts 2019/20, and commented on the format/content for users. Reliance on health and social care governance arrangements (Integration Joint Board; IJB Audit and Risk Committee). Audit Committee Annual Report presented to Council in public.	3 (2019/20 3)

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

Audit Committee
Tuesday 17 August 2021
Item No 5.2

Unaudited Annual Accounts 2020/21

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Decision

1 Recommendation

1.1 In accordance with The Local Authority Accounts (Scotland) Regulations 2014, set out in section 2 of the report, Audit Committee are asked to consider the unaudited annual accounts for 2020/21.

2 Purpose of Report / Executive Summary

2.1 The purpose of this report is to present the Council's unaudited annual accounts for 2020/21 to Audit Committee and to provide a brief overview on some of the key areas. A separate presentation will be provided to Committee to support consideration of this report and the accounts themselves.

2.2 The 2020/21 Single Entity accounts show an increase in Net Assets of £47.885 million from 2019/20. Significant increases in the value of Property Plant and Equipment, Cash and Cash Equivalents and Pension Liabilities are the most significant contributors.

Date: 9th August 2021

Report Contact:
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3 Background

3.1 The unaudited annual accounts for 2020/21 are attached as an appendix to this report, having been sent separately to Committee members earlier in the month.

3.2 The Local Authority Accounts (Scotland) Regulations 2014 sets out the requirements in respect of preparation, submission and scrutiny of unaudited accounts as follows, paragraphs 9 and 10 set out the requirements for Audit Committee to consider the unaudited annual accounts by 31 August 2021.

Published Accounts and Audit

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

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

(a) a management commentary;

(b) a statement of responsibilities;

(c) an annual governance statement;

(d) either—

(i) a remuneration report in the style set out in the Schedule to these Regulations, or

(ii) a statement that no remuneration report has been prepared because no persons have received remuneration that requires to be included in such a report.

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

(a) a housing revenue account;

(b) a non-domestic rate account;

(c) a council tax account;

(d) any other statement relating to statutory funds which is required by any statutory provision.

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

(5) The proper officer must ensure that—

(a) the statement of responsibilities required by paragraph (2)(b) accurately reflects the proper officer's responsibilities; and

(b) the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.

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

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

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

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

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

3.3 In accordance with paragraph 6 and 7 of the regulations the unaudited annual accounts were signed by the Chief Officer, Corporate Solutions on 29th June 2021 and immediately submitted to Ernst and Young LLP (EY), the Council's appointed external auditors.

3.4 The regulations also provides for public inspection and in this regard public inspection ran from 1st July 2021 to 21st July 2021.

3.5 Accordingly, this meeting of Audit Committee is specifically to fulfil the requirements of paragraphs 9 and 10 of the regulations.

3.6 Separately on the Council agenda for 23 June 2021 was the Financial Monitoring 2020/21 – General Fund Revenue, Housing Revenue Account Revenue and Capital Final Outturn 2020/21 and General Services Capital Plan 2020/21 Final Outturn. These reports detail financial performance for each account area and were considered and noted by members.

4 Financial Statements

4.1 There continues to be refinements to the format and presentation of Midlothian's annual accounts as part of the continuous improvement agenda, particularly relating to the Management Commentary.

4.2 There have been no material changes to the accounting code for 2020/21 that have impacted on the Council.

5 Long Term Assets

5.1 The total value of Long Term Assets increased by £70.703 million from 31st March 2020. The increase is almost solely down to upward revaluations of the Councils school estate which, in 2020/21, fell within the rolling programme of asset valuations.

5.2 The Councils valuation methodology applied uses published Scottish Futures Trust (SFT) metrics intrinsic in the Learning Estate Investment Programme (LEIP) alongside evidence on the cost of school builds in Midlothian in recent years.

5.3 Subsequent to completion of the 2020/21 valuations the SFT published revised rates. These increased significantly and include, amongst other things, an uplift to reflect the additional costs of achieving the energy performance targets required by the LEIP programme. Discussion with EY is ongoing on the suitability of amending the 2020/21 valuations in the accounts to reflect the new rates.

5.4 The Council have amended the valuation basis for its shareholding Lothian Buses Ltd to exclude any impact from the volatility of IAS 19 Pension valuation methodology. This is exemplified in Lothian Buses Ltd accounts to 31st December 2020 by a move from an asset in the previous year to a liability, mainly as a consequence changes in demographic assumptions.

5.5 The Council's shareholding in Lothian Buses is valued at £5.499 million, a reduction of £1.537 million on 2019/20. Current year trading conditions as illustrated in the Company's management accounts are reviewed in order to identify any factors that may need to be reflected in the valuation between the last published accounts and the Council's 31 March 2021 year end date.

6 Current Assets

6.1 Cash and Cash Equivalents at 31st March 2021 are £28.982 million higher than seen a year previously. As covered in detail in the suite of financial monitoring reports presented to Council in June the main reasons for this are distribution of a large value of COVID-19 recovery funding by the Scottish Government late in 2020/21 and also pandemic related delays in capital programmes.

6.2 Debtors have risen by £7.153 million. Whilst this increase is predominantly due to relaxation in 2020/21 of policies for pursuing debt, the longer term impact on the potential for an increase in uncollectable debt is being closely monitored.

7 Long term Liabilities

7.1 The net pension fund liability has increased by £43.311 million to £141.030 million. The primary reason for this is a reduction in the real discount rate for obligations.

7.2 The 2020 triennial valuation shows an increase in the overall funding position to 104% (99% in 2017) indicating that, based on current assumptions and projections, all future pension costs can be met.

7.3 Long Term borrowing increased by £13.466 million to £273.893 million and stays well within member approved prudential code boundaries relating to capital programmes.

7.4 The accounting treatment of the Millerhill PPP is an area that was still in discussion between Midlothian Council, The City of Edinburgh Council and respective auditors at the time the unaudited annual accounts were finalised. Therefore, it was recognised that the accounting entries posted at the time would be very likely to change during the audit process. A final agreed position has recently been reached.

8 Audit and Consideration of audited Accounts

8.1 EY are well underway with the substantive phase of the audit with a clearance meeting scheduled for mid-September 2021.

8.2 Thereafter, the audited annual accounts are scheduled to be presented to Audit Committee on 28th September 2021 together with the EY annual audit report which will also go on to Council.

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

Consideration and Signing of Audited Annual Accounts

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

(a) meet to consider the audited Annual Accounts; and

(b) aim to approve those accounts for signature as described in this regulation no later than 30th September immediately following the financial year to which the accounts relate.

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

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

(a) the management commentary by the proper officer, the Chief Executive and the Leader of the Council;

(b) the statement of responsibilities by the Leader of the Council and the proper officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;

(c) the annual governance statement by the Chief Executive and the Leader of the Council;

(d) the remuneration report by the Chief Executive and the Leader of the Council; and

(e) the balance sheets by the proper officer, to authorise publication of the financial statements.

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

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

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

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

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

8.4 Accordingly Audit Committee on 28 September 2021 must consider in accordance with paragraphs 1 and 2 whether the accounts should be signed and thereafter the Leader, Chief Executive and myself as proper officer (S95 officer) will sign the accounts before submission to the Accounts Commission.

9 Report Implications

9.1 Resource

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

9.2 Digital

There are no IT implications arising from this report.

9.3 Risk

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

9.4 Ensuring Equalities

There are no equality implications arising directly from this report.

9.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Additional Report Implications
Appendix B – Background Information/Links

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

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

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value
The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders
No consultation was required.

A.6 Impact on Performance and Outcomes
The decisions taken to balance the budget will have fundamental implications for service performance and outcomes. The Council's Transformation Programme aims to minimise the impact on priority services.

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

APPENDIX B

Background Papers/Resource Links (if applicable)

Vogrie Country Park

MIDLOTHIAN COUNCIL UNAUDITED ANNUAL ACCOUNTS

2020/21

Midlothian

www.midlothian.gov.uk

Table of Contents

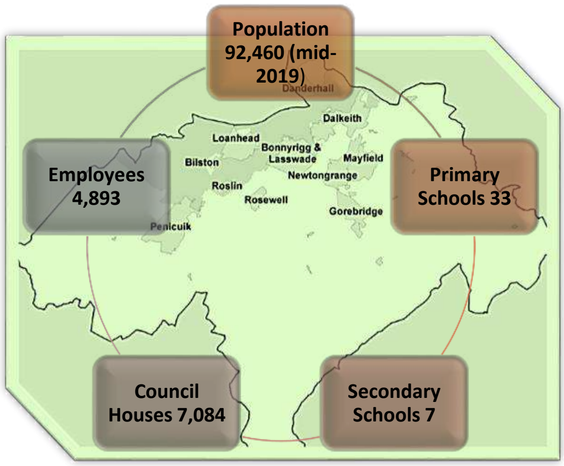
Management Commentary

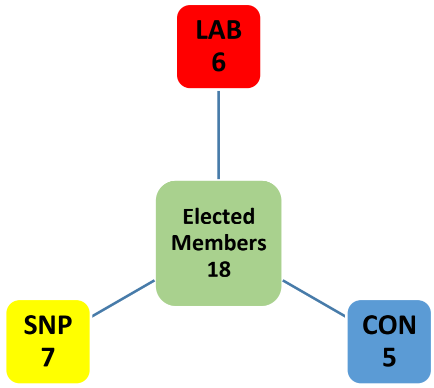
The Management Commentary is intended to assist users in understanding the objectives and strategy of the Council and provide a review of its business and financial performance for the year. It also outlines the principal risks and uncertainties which are likely to affect the future development and performance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

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

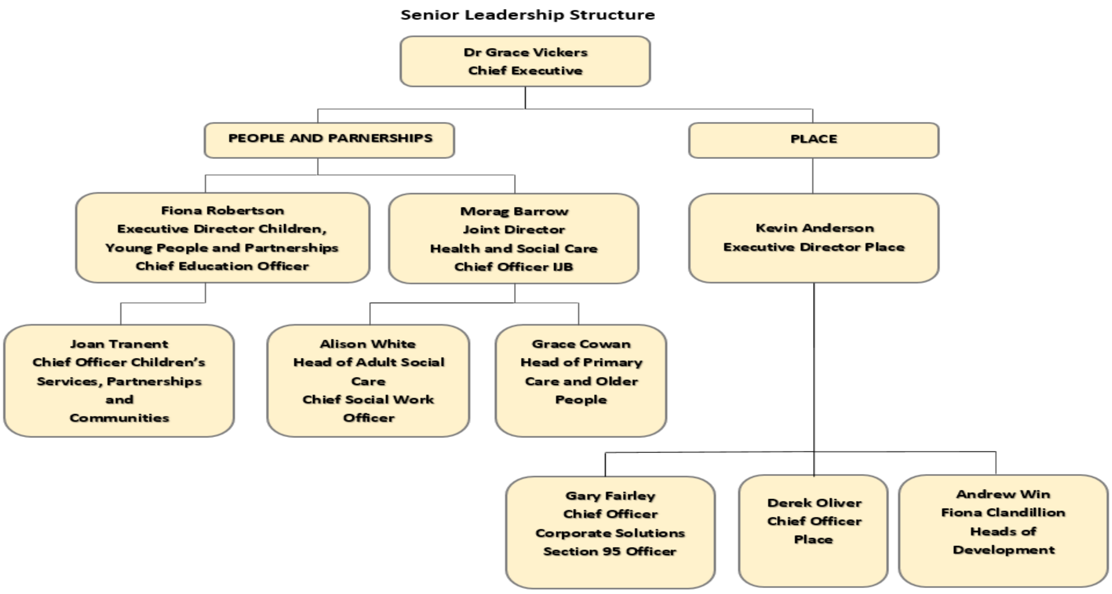
About Midlothian Council

Midlothian Council is located south of Edinburgh centred on the main towns of Penicuik, Dalkeith, Bonnyrigg and Lasswade. One of the smaller local authority areas, but also the fastest growing, it has emerged as a world centre for the Biotechnology industry. Some key facts about Midlothian are:





Council Service Structure



Key Priorities and Objectives

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

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

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

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

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

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

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

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

The annual Balanced Scorecard measures progress towards these outcomes and is used to demonstrate ongoing improvements and reflect the ongoing challenges within Midlothian. The full detail behind the performance indicators measured by the balanced scorecard for 2020/21 can be found on the Council's website Balanced Scorecard 2020/21.

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

Key Achievements and Highlights for 2020/21

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

Achievement	Commentary
Funding Secured for Employability Programmes	Over £1.5 million funding has been secured for employability programmes including Foundation Apprenticeships, No One Left Behind, Modern Apprenticeships, third sector Kickstart partnership, Parental Employability Support and the Young Persons Guarantee.
Carriageway and Footway Renewal/Improvement Scheme	The capital roads programme commenced at the end of June 2020, following easing of Covid-19 restrictions. 16 of 25 individual carriageway schemes was completed equating to 3.71 km of carriageway resurfacing, and 6 of 19 individual footway schemes was completed equating to 2.7 km of footway resurfacing.
Provision of Affordable Housing	The Council's Strategic Housing Investment Programme (SHIP) was submitted to the Scottish Government in December 2020. To address the need for affordable housing the SHIP details potential sites for 2,602 new affordable homes to be built during 2021-26. During 2020/21 119 new Council Houses were completed, this brings the total completed to 1,310 over the past 14 years. In addition, 45 properties were purchased during the year to add to the overall housing stock.

Financial Performance for 2020/21

Financial information is part of the Council's Performance Management Framework with the General Fund and Housing Revenue Account (HRA) financial performance regularly reported to Council. This section summarises our financial performance for 2020/21. Full details of the Councils financial performance was reported to Council on 29 June 21 and are available on the Council's website Council Meeting 29 June 2021.

Useable Reserves

The Council holds funds in a number of Usable Reserves for various purposes. Details of the balances and prior year comparatives are shown in the table below, more detail can be found in the Movement in Reserves Statement on P35:

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

General Fund Performance

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

The Comprehensive Income and Expenditure Statement (CIES) on page 34 sets out the Council's funding and spending in accordance with accounting requirements which is different in the way we report performance in the year. The Expenditure and Funding Analysis (EFA) on page 38 provides a link between the budget management reports, reported within the year and the figures in the CIES.

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

Budget Monitoring 2020/21				**Building the EFA**		
Service Area	**Revised Budget**	**Net Expenditure**	**(Under)/ Overspend**	**Budget Monitoring Net Expenditure**	**Adjustments for Internal Reporting Purposes**	**Net Expenditure Chargeable to the General Fund and HRA Balances**
Management and Members	1,947	1,921	(26)	1,921	41	1,962
Children's Services, Partnerships & Communities	19,722	19,774	52	19,774	0	19,774
Education	98,009	98,009	0	98,009	(9,585)	88,424
Adult Health & Social Care	4,605	4,353	(252)	4,353	0	4,353
Midlothian Integrated Joint Board	44,985	44,985	0	44,985	0	44,985
Place	33,850	34,168	318	34,168	(3,736)	30,432
Corporate Solutions	21,406	21,067	(339)	21,067	(7,330)	13,737
Housing Revenue Account	0	0	0	0	(17,747)	(17,747)
Joint Boards	572	567	(5)	567	0	567
Central Costs	7	65	58	65	0	65
Non-Distributable Costs	1,408	1,352	(56)	1,352	0	1,352
Loan Charges	5,296	4,869	(427)	4,869	22,068	26,937
NDR- Discretionary Relief	70	70	0	70	(70)	0
Investment Income	(36)	(34)	2	(34)	34	0
Allocations to HRA, Capital Account, etc.	(5,140)	(5,150)	(10)	(5,150)	5,150	0
Net General Fund Expenditure	**226,701**	**226,016**	**(685)**	**226,016**	**(11,175)**	**214,841**
Less Funding:						
Scottish Government Grant	185,845	185,845	0	185,845	(70)	185,775
Council Tax Income	54,477	54,558	81	54,558	(5,257)	49,301
Total Funding	**240,322**	**240,403**	**81**	**240,403**	**(5,327)**	**235,076**
General Fund Utilisation of Reserves	**(13,621)**	**(14,387)**	**(766)**	**(14,387)**	**(5,848)**	**(20,235)**

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

- Additional costs of £0.444 million associated with family, residential and day placements for children due to higher client numbers and extended periods of support;
- Adverse conditions over the winter months resulting in additional response costs of £0.386 million;
- Additional costs relating to unsettled and at risk grant claims relating to European Union funded projects of £0.193 million.

Offset by:

- Reduced running costs in some service areas of £0.995 million;
- Lower than forecast capital expenditure resulting in a reduction in related borrowing costs of £0.427 million;
- A reduction in residential respite places for children of £0.382 million.

Covid-19

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

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

General Fund Reserve 2020/21

The Council approved the Reserves Strategy in February 2019 setting the minimum level of uncommitted reserve of 2% of net expenditure (excluding resources delegated to the IJB), this equates to £3.634 million. In 2020/21 there was an increase of £16.237 million in the General Fund Reserve comprising of an underspend of £0.765 million as detailed above, planned increase in reserves during the year of £0.003 million and budgets to be carried forward for use in 2021/22 of £23.313 million, this is offset by a decrease in earmarked reserves of £7.388 million which were utilised in the year. The effect of the 2020/21 movement of £16.244 million on the General Fund Reserve balance is demonstrated in the table below with uncommitted reserves £0.178 million in excess of the approved minimum level. Further details are provided in the Movement in Reserves Statement on page 35:

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

The movement in the Earmarked General Fund balance of £14.480 million is outlined in Note 8 on page 59, which reflects the movements attributable to Earmarked Reserves.

Housing Revenue Account (HRA) Performance

The Council has a statutory obligation to maintain a revenue account for its housing provision in accordance with the *Housing (Scotland) Act 1987*. The Housing Revenue Account records all income and expenditure relating to the Council's own housing stock. Rent paid by tenant's funds the revenue expenditure on housing management, repairs and maintenance and financing of capital expenditure. The table below provides analysis of financial performance for 2020/21:

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

Overall, the majority of operational costs showed favourable variances at the year-end due to rephasing of the Capital Plan resulting in reduced borrowing costs for the year. The closing balance on the Housing Revenue Account reserve is £48.385 million. This is available to meet the Council's ambitious capital investment plan, which currently runs to 2035/36 to build further new housing stock and continue to improve and upgrade its existing stock, particularly through Scottish Housing Quality Standards (SHQS) improvement works. The majority of this plan is funded through prudential borrowing with costs of borrowing met from rental income and planned utilisation of the HRA reserve, which is projected to reduce to approximately £2 million by the end of the plan.

Capital Expenditure 2020/21

Capital expenditure represents money spent by the Council for buying, upgrading or improving assets such as buildings and roads. The difference between capital and revenue expenditure is that the Council receives the benefit from capital expenditure over a period exceeding one year. In 2020/21 the final budget for capital investment was £24.940 million (2019/20 £34.123 million), this budget was exceeded by £0.629 million mainly due to additional Digital Services capital costs in response to COVID-19. The table below identifies actual capital spend during the financial year for key projects:

2019/20 £000	General Fund Capital Spend	2020/21 £000
21,765	School Estate	10,319
0	Zero Waste	7,380
5,168	Roads, Pavements and Street Lighting	1,841
781	Fleet Replacement and Upgrades	1,495
1,198	Digital Assets	2,101
937	Centralised Property Upgrades	903
3,250	Other Capital Projects	1,530
33,099	**Total Spend**	**25,569**

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

2019/20 £000	Housing Capital Spend	2020/21 £000
18,690	New Social Housing	14,486
5,701	SHQS Improvement Works	866
544	Other Small Capital Projects	280
24,935	**Total Spend**	**15,632**

A combination of government grants, external funding contributions from third parties, capital receipts, Section 75 developer contributions and borrowing funded this expenditure. ***Note 31*** in the financial statements provides a full analysis of capital expenditure and the financing required.

Treasury Management and Investment

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

Financial Indicator	2019/20	2020/21	Commentary
Capital financing requirement	£284.750m	£293,114m	Reflects the Council's underlying need to borrow to finance capital expenditure incurred historically by the Council that has yet to be financed.
Actual external borrowing	£269.077m	£274.795m	The actual external debt and long-term liabilities position of the Council. The actual figures should never exceed the Councils Authorised Debt Limits, which are calculated in line with the requirements of the Prudential Code for Capital Finance in local authorities.
Under/(Over) Borrowed	£15.673 m	£18.319m	This demonstrates that the Council's capital borrowing requirement has not been fully funded by loan debt and is using cash from working capital, reserves and balances to support capital programmes whilst investment returns are low.
Ratio of finance costs to net revenue stream – General Fund	2.69%	2.03%	This is a measure of how affordable the Council's capital plans are. It takes actual finance costs as a % of net revenue spend.
Ratio of finance costs to net revenue stream – HRA	36.23%	37.50%	As above.
External Loans Fund Interest Rate	3.44%	3.31%	Average rate of interest paid on external debt.
Internal Loans Fund Interest Rate	3.10%	2.95%	This combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges to arrive at a weighted average 'loans fund rate' figure for each authority.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from Public Works Loan Board (PWLB). Note 17 and Note 18 of the financial statements provides further details on the Council's borrowing.

Balance Sheet

The table below summaries the Council's Balance Sheet as at 31 March 2021. The Balance Sheet brings together assets and liabilities, year-end balances, money owed to and by the Council and reserves. More information on the balance sheet is provided on page 36.

	31 March 21 £000	31 March 20 £000	Change £000
Long-term Assets	974,101	903,398	70,703
Current Assets	160,558	134,274	26,284
Current Liabilities	(86,812)	(91,235)	4,423
Long-term Liabilities	(511,389)	(457,864)	(53,525)
Total	**536,458**	**488,573**	**47,885**

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

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

Pension

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

Risks and Uncertainties Facing the Council

COVID-19 Pandemic Recovery

The impact of the Covid-19 outbreak brings risk and uncertainty globally. Currently, predicting the impact for the national and local economy is extremely uncertain. A relevant local assessment is to be found in 'State of the Economy: September 2020' published by the Chief Economist to the Scottish Government on 21 April 2020. This report summarises recent developments in the global, UK and Scottish economies and provides an analysis of the performance of, and outlook for, the Scottish economy. It quotes:

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

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

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

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

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

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

Financial Pressures on Revenue and Capital Resources

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

- Continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care and the significant population growth in Midlothian. These pressures continue and present a considerable challenge to the Council in both financing them and transforming services to improve ways of managing some of the implications of these pressures;

- Pay inflation and Scottish Government Grant Income projections are critical areas of modelling given their overall significance and uncertainty. For 2020/21 and again for 2021/22 the Scottish Government published a one year budget and grant settlement, and as such Councils are currently unaware of the level of funding that will be available to them beyond 2021/22. There are a number of factors, which will influence the level of grant support the Council might expect for 2022/23 and beyond. Among these will be a range of economic factors which will influence the resources Scottish Government has at its disposal, whether from the UK Government block grant or through tax revenues directly controlled by Scottish Government. The other main factors will be the taxation and spending priorities of the Scottish Government and the negotiations with other parties in the Scottish Parliament to support the passage of the budget bill;

- Requirement to maintain the physical condition of major capital assets such as roads and schools;

- Potential impact on local economy following Covid-19 pandemic over the coming years.

Whilst an assessment of economic factors can be made at this time, based on the information available from the Office of Budget Responsibility, the Scottish Fiscal Commission and Scotland's Fiscal Outlook, the Scottish Governments second medium term financial strategy and the impact of Scottish Governments tax and spending priorities will only become apparent when the Scottish Governments 2022/23 budget is published in December 2021.

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

How the Council Manages Risk

Action	Commentary
Service Risk Registers	The service Risk Registers contain operational risks and are managed by each Service Management Team. The Risk Management Group provides further scrutiny of service risks and significant risks are added to the corporate risk register.
The Corporate Risk Register	The Corporate Risk Register is managed by the Corporate Management Team which provides assurance through scrutiny and challenge and ensures that the significant risks facing the Council have been identified and effective treatment actions are implemented. The Corporate Risk Register is then submitted to Audit Committee for approval which provides effective scrutiny and challenge as part of the Council's corporate governance arrangements.
Covid Response	As the situation with the COVID-19 pandemic continued to evolve, Midlothian Council is ensured critical services to its citizens continued to be delivered as a priority. The Council worked with the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to monitor the level of additional cost pressures and reduced income levels arising from COVID-19, which had impacted the Council's ability to ensure a balanced financial position. A Route Map through and out of the Crisis was also approved at Council 16 June 2020 which seeks to both support recovery and to retain the best elements of transformation which took place in response to COVID-19. The Route map can be found on the Council's website Midlothian Council > Meetings 16 June 2020.
Development of a Medium Term Financial Strategy	The Council's Long Term financial outlook highlights significant funding pressure that the Council may face over the next few years. On 25 June 2019 Council agreed a Medium Term Financial Strategy (MTFS) 2020/21-2022/23 , which set out budget projections for 2020/21-2022/23 and has continued to be updated and reviewed during the budget setting process for 2020/21 and 2021/22 accordingly . The MTFS sets out cost projections for pay inflation, price inflation and the impact of demographic changes together with income projections and the impact of a range of measures designed to achieve significant progress towards addressing the projected budget gaps.

Looking Ahead

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

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

Capital Expenditure	Commentary
School Infrastructure	• Equipped for Learning Programme; • Wide-ranging school building, extension and refurbishment programme; • A replacement of Beeslack Community High School and refurbishment on Penicuik High School • A new school campus proposed at Shawfair;

Capital Expenditure	Commentary
	• A new high school for Gorebridge; • Replacement schools for Mayfield Campus and Lasswade Primary.
Provision of Care Services	A new care facility in Bonnyrigg which will provide accommodation for those in need of high quality care.
Carriageway and footway infrastructure	• Continuing investment in improved roads, footpaths and lighting across Midlothian; • As part of the Edinburgh and South East Scotland City Region Deal major investment is also planned in the new A701 Relief Road and A702 link which will support planned investment in new research and technology facilities at Easter Bush.
Social Housing	• A continuation of the new build housing programme and upgrading of existing housing

The Council has recognised the need for a strategic step change in the form of the development, agreement and implementation of a Medium Term Financial Strategy, mentioned earlier, together with the proposed resource allocation measures that will enable the Council to balance revenue budgets for each financial year.

The Council continues to regularly monitor its financial position and provide full financial updates to the Council Management Team and the Council as appropriate, including options on addressing any new budget and spending pressures. This may include further use of reserves, reallocation of committed reserves, changes to capital spend, opportunities available through review of the Loans Fund or other cost savings. Management is continuing to liaise with Scottish Government and COSLA on ensuring sustainable funding going forward.

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

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

Conclusion

2020/21 was a year of unprecedented challenges. Dealing with the immediate impacts of a global pandemic as well as continued increasing demand pressures. Despite these pressures, the Council made significant improvements across a range of areas and the Council continued to invest for the future in its asset base to provide essential infrastructure to support the growing population and it is important to appreciate these improvements.

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

Acknowledgments

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

X

Gary Fairley
Chief Officer, Corporate Solutions

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

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

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Councillor Derek Milligan
Leader of the Council

The Chief Officer, Corporate Solutions Responsibilities

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

In preparing these Annual Accounts, the Chief Officer, Corporate Solutions has:

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

I certify that the financial statements present a true and fair view of the financial position of the Council (and its group) at the reporting date and the transactions of the Council (and its group) for the year ended 31 March 2021.

X

Gary Fairley
Chief Officer, Corporate Solutions

Annual Governance Statement

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2021, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Due to the Covid-19 Pandemic, on 16 March 2020 Group Leaders agreed that Standing Order 19.2 be implemented for any emergency decisions required at the start of the Pandemic. This was in place from 24 March to 15 June 2020. Council and Committee meetings recommenced, using a virtual platform on 16 June 2020. During this period, from 24 March to 15 June 2020 the Corporate Incident Management Team met daily and the Chief Executive met weekly with the Leader and Depute Leader, the Administration and with Group Leaders. All meetings were held using the virtual platform. All 19.2 decisions taken during this period were reported to Group Leaders weekly and were also reported to the first available meeting of Council on 16 June 2020.

Scope of Responsibility

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

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

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

Framework for Good Governance

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

The CIPFA/SOLACE defines the seven core principles of good governance, namely:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
B. Ensuring openness and comprehensive stakeholder engagement;
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
D. Determining the interventions necessary to optimise the achievement of the intended outcomes;

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
F. Managing risks and performance through robust internal control and strong public financial management; and
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016), has been updated during 2020/21 to reflect the changes in corporate governance during 2020/21 and was approved by Council in March 2021.

The Council's Governance Framework

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

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

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

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

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality. At the onset of the pandemic, Council meetings were suspended. Standing Order 19.2 was implemented for any emergency decisions from 24 March to 15 June 2020. Council and Committee meetings recommenced on 16 June 2020 using a virtual platform.

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

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

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

The Council's vision, strategic objectives and priorities are set out in the Single Midlothian Plan developed through the Community Planning Partnership (of which the Council is a partner). The Council's Medium Term Financial Strategy and Service Plans outline how Midlothian Council will deliver its contribution to the Single Midlothian Plan.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A Medium Term Financial Strategy was approved by Council in June 2019.

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

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

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

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

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

The Annual Accounts and Report for 2020/21, setting out the financial position in accordance with relevant accounting regulations, are being prepared.

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

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

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

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

Improvement Areas of Governance

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

The Council at its meeting on 20 August 2019 approved the "Best Value Assurance Report: Midlothian Council Action Plan", following its consideration by the Corporate Management Team on 17 July 2019, to address the 8 recommendations made in order to demonstrate Best Value.. A follow up Best Value Report was presented to Council in November 2020 and a further report is scheduled for June 2021.
In response to the Pandemic the Council has undergone significant transformation. In June 2020, Council approved the Midlothian Route Map. To support this strategic recovery route map the Council have been working together with Nesta and the Listen and Learn Report was approved in September 2020. In addition Council also approved a new Economic Renewal strategy and an accelerated Capital programme as part of the Council's commitment to supporting Economic Recovery.

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

1. The workforce strategy was approved by Council in December 2019. The Pandemic has resulted is significant changes to the workforce and the digital solutions now implemented. As a result workforce planning and digital by default approaches continue to be developed to support the Midlothian Route Map which includes a Remote Working Transformation Board which is chaired by the Chief Officer, Corporate Solutions. Workforce is also being addressed through the Hub and Spoke Board in moving towards local by default service delivery and the Digital First Board in support of 21st Century ways of working.

2. The Council is continuing to implement financial planning arrangements to address budget gaps, and a balanced budget was set for 2021/22, as approved by Council in February 2021, with a Corporate Solution proposed for 2022/23.

3. Progress has been achieved with elected members in light of the recommendation to exercise appropriate scrutiny and to develop Professional Development Plans. This is also supported by Seminars and Briefings which complement Council and Committee meetings. Further work is ongoing for members to fully take ownership for personal development plans and access relevant training opportunities.

4. Reviews are progressing under the new leadership to continue to build on positive elements of community empowerment. In 2021 Midlothian was awarded the IESE Certificate of Excellence for the Kindness Midlothian Campaign which was led by the Community Planning Partnership. Development of future models for working with communities in designing and delivering services is progressing with Nesta, a social innovation foundation, as outlined in the Listen and Learn report, particularly in relation to the transformation of Neighbourhood Services.

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

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

5. Review and update the Financial Regulations and Financial Directives and associated guidance to reflect changes arising from organisation structures and systems and embed arrangements to support regular review and updating. Review and update the Scheme of Delegation, Standing Orders and Scheme of Administration, in preparation for the term of next Council and to ensure that they remain appropriate and reflect the current management structure. A cross party Standing Orders working group is currently in place.

6. Ensure that the action taken to strengthen resource capacity and skills in the Procurement function provides the necessary support to Service Managers, strengthens compliance with the Council's procurement strategy and procedures, and further improves contract monitoring to demonstrate delivery of value for money and to consistently ensure integrity and compliance with high ethical standards expected by the Council. A new Procurement Manager has been appointed in order to lead transformation of this service area and will take up post in September 2021.

7. Continue to refine quarterly monitoring reports for both revenue and capital to improve the robustness of scrutiny and transparency of performance against financial plans.

8. Enhance the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.

9. Provide ongoing training for managers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.

10. Ensure that the Strategic Boards, supporting the work of the Business Transformation Board and the cross-party Business Transformation Steering Group secure the required outcomes at the required scale and pace.

11. Review and refresh the risk management policy and guidance and develop a consistent approach to quarterly risk review and reporting processes at service/operational level.

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

Conclusion and Opinion on Assurance

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

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Councillor Derek Milligan
Leader of the Council

X

Dr Grace Vickers
Chief Executive

Remuneration Report

Introduction

The Local Authority Accounts (Scotland) Regulations 2014 require local authorities in Scotland to prepare a Remuneration Report as part of the annual statutory accounts.

The following report details Midlothian Council's remuneration policy for its senior councillors and senior employees, providing full details of the remuneration and pension benefits they receive. This report also provides information on the number of employees whose annual remuneration was £50,000 or more as well as summary information in relation to employees' exit packages agreed during the year.

Remuneration of Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183) as amended. The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as Leader of the Council, Provost, Senior Councillors or Councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A Senior Councillor is a Councillor who holds a significant position of responsibility within the Council's political structure.

The Regulations permit the Council to remunerate one Leader of the Council and one Provost. For 2020/21 the Regulations set the salary for the Leader as £29,760 (2019/20 £29,119) and the maximum salary for the Provost as £22,320 (2019/20 £21,840).

The Regulations also set out the remuneration that may be paid to Senior Councillors and total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75% of the total yearly amount payable to the Leader of the Council. For 2020/21, the maximum salary which could be paid to a Senior Councillor was £22,320 (2019/20 £21,840) with the maximum number of Senior Councillors set at eight (excluding the Provost and the Leader). The total remuneration for Senior Councillors should not exceed £160,696 (2019/20 £157,237). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within those maximum limits.

The Regulations also permit the Council to pay contributions or other payments as required by the Local Government Pension Scheme in respect of those Councillors who elect to become Councillor Members of the pension scheme.

In addition to the Senior Councillors of the Council, the regulations also set out the remuneration payable to Councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board. The Regulations require the remuneration and any pension contributions, if a member of the Local Government Pension Scheme, to be paid by the Council of which the Convener and Vice-Convener is a member. The Council is reimbursed by the Joint Board for any additional remuneration paid to a member from being a Convener of Vice-Convener of a Joint Board.

Details of the Remuneration of Council Leader, Provost and Senior Councillors are shown in the table below:

Total Remuneration 2019/20	Councillor	Date From	Date To	Salary	Expenses	Total Remuneration 2020/21
£29,751	**D Milligan** Council Leader	Apr-20	Mar-21	£29,760	£3,466	£33,226
£21,869	**J Muirhead** Depute Leader	Apr-20	Mar-21	£22,320	£30	£22,350
£22,107	**P Smaill** Provost and Group Leader	Apr-20	Mar-21	£22,320	£267	£22,587
£21,986	**M Russell** Depute Provost	Apr-20	Mar-21	£22,320	£166	£22,486
£21,986	**C Johnstone** Group Leader	Apr-20	Mar-21	£22,320	£(16)	£22,304
£22,103	**R Imrie** Senior Councillor	Apr-20	Mar-21	£22,320	£257	£22,577
£21,963	**S Curran** Senior Councillor	Apr-20	Mar-21	£22,320	£32	£22,352
£21,955	**J Hackett** Senior Councillor	Apr-19	Mar-20	£22,320	£0	£22,320
£183,720	**Total**			**£186,000**	**£4,202**	**£190,202**

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

Remuneration of Employees

The salary of senior employees is set by reference to national arrangement. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish Local Authorities. The salaries of the Executive Directors, Chief Officers and Heads of Service are all now based on a fixed percentage of the Chief Executives salary.

The salaries of all other employees are set by reference to:

- Teaching staff – The Scottish Negotiating Committee for Teachers (SNCT);
- Other staff – The Scottish Joint Negotiating Committee (SJNC).

The table below details the remuneration paid to Senior Employees of the Council during the financial year:

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

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

Pension Benefits

Pension benefits for Councillors and local government employees are provided through the Local Government Pension Scheme (LGPS), which is administered by the Lothian Pension Fund. From 1 April 2015, this became a career average salary pension scheme, although it was a final salary scheme until that date. This means that pension benefits are based on an average of the pay over the number of years that a person has been a member of the scheme.

From 1 April 2009, a five-tier contribution system is in place with contributions from scheme members based on how much pay falls into each tier. This is designed to give more equality between costs and benefits of scheme membership. Part-time workers contribution rates are worked out on the whole time pay rate for the job, with actual contributions paid on actual pay earned.

The tiers and contribution rates are as follows:

Pensionable Pay 2020/21	Contribution Rate
On earnings up to and including £22,200	5.5%
On earnings above £22,201 and up to £27,100	7.25%
On earnings above £27,701 and up to £37,200	8.5%
On earnings above £37,201 and up to £49,600	9.5%
On earnings above £49,601	12%

There is no automatic lump sum on retirement. Pension scheme members may opt to commute pension for a lump sum payment up to the limits set by the Finance Act 2004. The rate and basis at which employees accrue their pension benefits has changed over time, this is shown in the table below:

Time Period	Pension Benefit Accrual Basis	Pension Benefit Accrual Rate	Lump Sum Basis
From 1 April 2015	Career Average	1/49th pensionable pay each year	n/a
From 1 April 2009 to 31 March 2015	Final Salary	1/60th pensionable pay each year	n/a
Prior to 1 April 2009	Final Salary	1/80th pensionable pay each year	3/80th final pensionable salary and years of pensionable service

The value of accrued benefits has been calculated on the basis of the age at which the person will become first entitled to receive a pension on retirement without reduction on account of its payment at that age, without exercising any option to commute pension entitlement into a lump sum, and without any adjustment for the effects of future inflation.

The pension entitlements for Senior Councillors for the year to 31 March 2021 are shown in the tables below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

Senior Councillors In-Year Pension Contributions

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

Senior Councillors Accrued Pension Benefits

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

The pension entitlements for Senior Employees for the year to 31 March 2021 are shown in the tables below, together with the contribution made by the Council to each Senior Employees pension during the year.

Senior Employees In-Year Pension Contributions

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

Senior Employees Accrued Pension Benefits

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

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

All senior employees shown in the tables above except M Barrow are members of the Local Government Pension Scheme. M Barrow is employed by NHS Lothian and is a member of the NHS pension scheme. The pension figures shown relate to the benefits accrued as a consequence of total local government service, not solely on the current appointment.

The McCloud judgements, as outlined in notes 34 (net pension liability), may have an impact the valuation of accrued pension benefits disclosed above, as the impact of these rulings is considered and implemented across the Lothian Pension Fund. However, while an estimate on the impact of these rulings has been made at the fund level it is not possible to assess the value of the impact for any specific individual at this stage. As advised by Lothian Pension Fund the impact is still to be finalised therefore it will only be reflected in the disclosure information in the year the member leaves of retires.

Remuneration of Other Employees by Pay Bands

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50,000 or above, this information is detailed in the table below:

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

Exit Packages

Termination benefits are amounts payable because of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to Services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or making an offer to encourage voluntary redundancy. The Council is only demonstrably committed to a termination when it has a detailed formal plan for the termination and it is without realistic possibility of withdrawal.

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

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

Total Employees 2019/20	Total Cost 2019/20 £000	Remuneration Band	Total Employees 2020/21	Total Cost 2020/21 £000
16	185	£0-£19,999	1	16
4	127	£20,000-£39,999	0	0
3	241	£40,000 +	3	210
23	**553**	**Total**	**4**	**226**

Trade Union Facility Time

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

For the reporting year 2020/21, the equivalent of 5.6 FTE employees (across 14 individuals) of paid time facility was made available. The proportion of their working hours spent on facility time is as follows:

Percentage of Time	Number of Employees
1% - 50%	12
51% - 99%	1
100%	1

The percentage of the total pay bill spent on facility time (calculated as total cost of facility time ÷ total pay bill) is:

Total cost of facility time	£210,322
Total Pay Bill	£153,370,826
Percentage total	0.14%

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

X

Councillor Derek Milligan
Leader of the Council

X

Dr Grace Vickers
Chief Executive

Independent Auditors Report

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

Under arrangements approved by the Commission for Local Authority Accounts in Scotland, the auditor with responsibility for the audit of the annual accounts of Midlothian Council for the year-end 31 March 2021 is:

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

The certified Annual Accounts will be presented to Audit Committee for approval on completion of the audit.

Principal Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position as 31 March 2021 and its cash flows. The Annual Accounts are prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21* (the Code), which is based on International Financial Reporting Standards (IFRSs). Every effort has been made to use plain language; where technical terms are unavoidable they have been explained in the Glossary.

The four principal statements and their relationships are explained in more detail below:

- **Comprehensive Income and Expenditure Statement** – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation (or rents). Councils raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding analysis and the Movement in Reserves Statement.

- **Movement in Reserves Statement** – this shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The net increase/decrease line shows the statutory General Fund balance and the Housing Revenue Account (HRA) balance movements in the year following those adjustments.

- **Balance Sheet** - this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'adjustments between the accounting basis and funding basis under regulations'.

- **Cash Flow Statement** – this shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Group and Council Comprehensive Income and Expenditure Statement

2019/20 Gross Expenditure	2019/20 Gross Income	2019/20 Net Expenditure or (Income)	2019/20 Group Net Expenditure		2020/21 Gross Expenditure	2020/21 Gross Income	2020/21 Net Expenditure or (Income)	2020/21 Group Net Expenditure	
£000	£000	£000	£000	**Service**	£000	£000	£000	£000	*Notes*
2,155	(53)	2,102	2,102	Management and Members	2,071	(13)	2,058	2,058	*EFA*
20,005	(1,356)	18,649	18,649	Children's Services, Partnerships and Communities	22,855	(2,264)	20,591	20,591	*EFA*
110,203	(11,853)	98,350	98,350	Education	125,537	(19,538)	105,999	105,999	*EFA*
8,582	(5,440)	3,142	3,142	Adult Health and Social Care	5,136	(945)	4,191	4,191	*EFA*
109,706	(64.443)	45,263	45,263	Midlothian Integrated Joint Board	114,720	(67,198)	47,522	47,522	*EFA*
71,766	(34,158)	37,606	37,606	Place	68,475	(24,955)	43,520	43,520	*EFA*
38,659	(24,103)	14,556	14,556	Corporate Solutions	38,099	(25,383)	12,716	12,716	*EFA*
5,411	(29,864)	(24,453)	(24,453)	Housing Revenue Account	39,372	(29,780)	9,592	9,592	*EFA*
549	0	549	549	Lothian Valuation Joint Board	567	0	567	567	*EFA*
(346)	0	(346)	(346)	Central Costs	65	0	65	65	*EFA*
1,550	0	1,550	1,550	Non- Distributable Costs	1,355	0	1,355	1,361	*EFA*
368,240	**(171,270)**	**196,968**	**196,968**	**Cost of Services**	**418,252**	**(170,076)**	**248,176**	**248,182**	
		0	(286)	Share of Operating results of Associates			0	(4,127)	
		724	724	Other Operating (Income) or Expenditure			30	30	*9*
		17,113	17,113	Financing and Investment Income and Expenditure			17,801	17,801	*10*
		(241,716)	(241,716)	Taxation and Non-Specific Grant Income			(258,062)	(258,062)	*11*
		(26,911)	**(27,197)**	**(Surplus) or Deficit on Provision of Services**			**7,945**	**3,824**	*12*
		(44,276)	(44,276)	(Surplus) or Deficit on revaluation of Property, Plant and Equipment assets			(90,163)	(90,163)	
		(42,897)	(42,897)	Re-measurement of the net defined benefit liability/(asset)			31,746	31,746	
		897	593	Other (Gains) / Losses			2,585	2,722	
		(86,276)	**(86,580)**	**Other Comprehensive (Income) and Expenditure**			**(55,832)**	**(55,695)**	
		(113,187)	**(113,776)**	**Total Comprehensive (Income) and Expenditure**			**(47,887)**	**(51,871)**	

Group and Council Movement in Reserves Statement

	General Fund Reserve	Housing Revenue Account	Capital Fund	Repairs and Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2020	**(13,428)**	**(44,395)**	**(25,364)**	**(3,670)**	**(86,857)**	**(401,715)**	**(488,572)**	**(1,864)**	**(490,436)**
Movement between Lothian Valuation Joint Board 2019/20 Unaudited and Audited Accounts	0	0	0	0	**0**	0	**0**	(31)	**(31)**
Revised Balance 31 March 2020	(13,428)	(44,395)	(25,364)	(3,670)	**(86,857)**	(401,715)	**(488,572)**	(1,895)	**(490,467)**
Total Comprehensive Expenditure and Income	(8,220)	16,165	1,206	0	**9,151**	(57,038)	**(47,887)**	(3,984)	**(51,871)**
Adjustments between accounting basis and funding basis under regulations **(Note 7)**	(6,393)	(22,013)	0	0	**(28,406)**	28,407	**1**	0	**1**
Transfers to/(from) other statutory reserves	(1,631)	1,858	0	(227)	**0**	0	**0**	0	**0**
Increase/(Decrease) in year	**(16,244)**	**(3,990)**	**1,206**	**(227)**	**(19,255)**	**(28,631)**	**(47,886)**	**(3,984)**	**(51,870)**
Balance at 31 March 2021 Carried Forward	**(29,672)**	**(48,385)**	**(24,158)**	**(3,897)**	**(106,112)**	**(430,346)**	**(536,458)**	**(5,879)**	**(542,337)**

	General Fund Reserve	Housing Revenue Account	Capital Fund	Repairs and Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2019	**(8,637)**	**(39,083)**	**(20,169)**	**(2,957)**	**(70,845)**	**(304,539)**	**(375,384)**	**(1,380)**	**(376,764)**
Movement between Lothian Valuation Joint Board 2018/19 Unaudited and Audited Accounts	0	0	0	0	**0**	0	**0**	105	**105**
Revised Balance 31 March 2019	**(8,637)**	**(39,083)**	**(20,169)**	**(2,957)**	**(70,847)**	**(304,539)**	**(375,384)**	**(1,275)**	**(376,659)**
Total Comprehensive Expenditure and Income	(13,802)	(17,882)	0	0	**(31,684)**	(81,503)	**(113,187)**	(589)	**(113,776)**
Adjustments between accounting basis and funding basis under regulations **(Note 7)**	8,298	12,570	(5,195)	0	**15,674**	(15,673)	**1**	0	**1**
Transfers to/(from) other statutory reserves	713	0	0	(713)	**0**	0	**0**	0	**0**
Increase/(Decrease) in year	**(4,791)**	**(5,312)**	**(5,195)**	**(713)**	**(16,010)**	**(97,176)**	**(113,186)**	**(589)**	**(113,775)**
Balance at 31 March 2020 Carried Forward	**(13,428)**	**(44,395)**	**(25,364)**	**(3,670)**	**(86,857)**	**(401,715)**	**(488,571)**	**(1,864)**	**(490,435)**

Group and Council Balance Sheet

31 Mar 20 Midlothian Council	31 Mar 20 Group		31 Mar 21 Midlothian Council	31 Mar 21 Group	
£000	£000		£000	£000	*Notes*
891,621	891,623	Property, Plant and Equipment	963,462	963,464	*13*
82	82	Heritage Assets	324	324	*14*
619	619	Intangible Assets	548	548	*15*
3,713	3,669	Long-term Debtors	3,943	3,897	*16/17*
7,363	7,363	Long-term Investments	5,824	5,824	*17*
0	1,820	Investments share of net assets of associates	0	5,841	
903,398	**905,176**	**Long-term Assets**	**974,101**	**979,898**	
85,370	85,370	Short-term Investments	75,442	75,442	*17*
1,371	1,370	Assets held for Sale	1,254	1,253	*19*
744	744	Inventories	938	938	*20*
22,107	22,157	Short-term Debtors	29,260	29,311	*17/21*
24,682	24,682	Cash and Cash Equivalents	53,664	53,664	*17/22*
134,274	**134,323**	**Current Assets**	**160,558**	**160,608**	
(11,441)	(11,441)	Short -term Borrowing	3,700	3,700	*17*
(45,031)	(44,994)	Short-term Creditors	43,726	43,694	*17/23*
(836)	(836)	Provisions	723	723	*24*
(33,927)	(33,927)	Grants Receipts in Advance	38,663	38,663	*28*
(91,235)	**(91,198)**	**Current Liabilities**	**86,812**	**86,780**	
(260,427)	(260,427)	Long-term Borrowing	273,893	273,893	*17*
(99,718)	(99,718)	Other Long -term Liabilities (PPP Contracts)	96,466	96,466	*17/32*
(97,719)	(97,719)	Other Long-term Liabilities (Pensions)	141,030	141,030	*34*
(457,864)	**(457,864)**	**Long-term Liabilities**	**511,389**	**511,389**	
488,573	**490,437**	**Net Assets**	**536,458**	**542,337**	
86,857	89,293	Usable Reserves	106,112	112,718	*25*
401,716	401,144	Unusable Reserves	430,346	429,619	*26*
488,573	**490,437**	**Total Reserves**	**536,458**	**542,337**	

The unaudited accounts were authorised for issue on 29 June 2021.

I certify that the Balance Sheet presents a true and fair view of the financial position of the Council and its group at 31 March 2021, and its income and expenditure for the year ended 31 March 2021.

X

Gary Fairley
Chief Officer, Corporate Solutions

Group and Council Cash Flow Statement

2019/20 Midlothian Council £000	2019/20 Group £000		2020/21 Midlothian Council £000	2020/21 Group £000
26,911	**27,197**	**Net (Surplus) or Deficit on the Provision of Services**	**(7,954)**	**(3,824)**
		Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements		
33,071	33,071	Depreciation	33,321	33,321
(18,660)	(18,660)	Impairment and downward revaluations	16,524	16,524
316	316	Amortisation	317	317
(1,568)	(1,565)	(Increase)/decrease in debtors	(7,291)	(7,292)
(1,573)	(1,575)	Increase/(decrease) in creditors	6,522	6,519
125	125	(Increase)/decrease in inventories	(196)	(196)
16,257	16,257	Movement in pension liability	11,565	11,565
4,632	4,632	Carrying amount of non-current assets sold or derecognised	317	317
69	(217)	Other non-cash items charged to the net surplus or deficit on the provision of services	(122)	(4,239)
32,669	**32,384**		**60,957**	**56,836**
		Adjust for Items included in the Net Surplus or Deficit that are Investing and Financing Activities		
64,985	64,985	Proceeds from short-term and long-term investments	84,986	84,986
(3,914)	(3,914)	Sale of property, plant and equipment, investment property and intangible assets	(287)	(287)
(40,295)	(40,295)	Any other items for which the cash effects are investing or financing cash flows	(22,993)	(22,993)
20,776	**20,776**		**61,706**	**61,706**
80,356	**80,356**	**Net Cash Flows from Operating Activities**	**114,718**	**114,718**
		Investing Activities		
(56,045)	(56,045)	Purchase of property, plant and equipment, investment property and intangible assets	(34,791)	(34,791)
(84,985)	(84,985)	Purchase of short-term and long-term investments	(74,985)	(74,985)
(551)	(551)	Other payments for investing activities	(864)	(864)
3,914	3,914	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	287	287
42,670	42,670	Other receipts from investing activities	28,661	28,661
(94,997)	**(94,997)**	**Net Cash Flows from Investing Activities**	**(81,692)**	**(81,692)**
		Financing Activities		
76,500	76,500	Cash receipts of short- and long-term borrowing	15,000	15,000
(3,156)	(3,156)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance-sheet PFI contracts	(9,920)	(9,920)
0	0	Other Receipts from Financing Activities	159	159
(44,701)	(44,701)	Repayments of short- and long-term borrowing	(9,283)	(9,283)
28,643	**28,643**	**Net Cash Flows from Financing Activities**	**(4,044)**	**(4,044)**
14,002	**14,002**	**Net Increase in Cash and Cash Equivalents**	**28,982**	**28,982**
10,680	10,680	Cash and Cash Equivalents at 1 April	24,682	24,682
24,682	**24,682**	**Cash and Cash Equivalents at 31 March**	**53,664**	**53,664**

The cash flows for operating activities include the following items:

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

Expenditure and Funding Analysis

This statement shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision-making purposes between the Council's Services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2019/20				2020/21		
Net expenditure chargeable to the General Fund and HRA balances	Adjustments (note 6)	Net expenditure in the CIES (note 12)		Net expenditure chargeable to the General Fund and HRA balances	Adjustments (note 6)	Net expenditure in the CIES (note 12)
£000	**£000**	**£000**	**Service**	**£000**	**£000**	**£000**
1,962	140	2,102	Management & Members	1,962	96	2,058
17,680	969	18,649	Children's Services, Partnerships & Communities	19,774	817	20,591
81,255	17,094	98,349	Education	88,424	17,575	105,999
2,193	949	3,142	Adult Health & Social Care	4,353	(162)	4,191
42,595	2,670	45,265	Midlothian Integrated Joint Board	44,985	2,537	47,522
26,846	10,762	37,608	Place	30,432	13,088	43,520
13,218	1,336	14,554	Corporate Solutions	13,737	(1,021)	12,716
(15,937)	(8,517)	(24,454)	Housing Revenue Account	(17,747)	27,339	9,592
549	0	549	Joint Boards	567	0	567
(937)	592	(345)	Central Costs	65	0	65
1,532	18	1,550	Non-Distributable Costs	1,352	3	1,355
170,956	**26,014**	**196,969**	**Net Cost of Services**	**187,904**	**60,272**	**248,176**
11,881	(11,157)	724	Other Income and Expenditure	11,488	(11,458)	30
13,972	3,141	17,113	Financing and Investment Income and Expenditure	15,449	2,352	17,801
(206,910)	(34,806)	(241,716)	Taxation and non-specific grant income	(235,076)	(22,986)	(258,062)
(10,101)	**(16,808)**	**(26,910)**	**(Surplus) or Deficit**	**(20,235)**	**28,180**	**7,945**
(47,720)			Opening General Fund and HRA Balance	(57,822)		
(10,102)			Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in year	(20,235)		
(57,822)			**Closing General Fund and HRA Balance at 31 March***	**(78,057)**		

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

Notes to the Accounts

The notes to the Accounts provide further information about the basis of preparation of the Annual Accounts, the specific accounting policies used and where the materiality is such that further disclosure is merited.

The Council's Statement of Accounts for 2020/21 have been prepared on a going concern basis. The concept of a going concern assumes that the Councils functions and services will continue in operational existence for the foreseeable future. The provisions in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. In accordance with the CIPFA Code of Local Government Accounting (2020/21), the Council is required to prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. The accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

1. Accounting Policies

i. General Principles

The Accounts summarise the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Council is required to prepare an Annual Statement of Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2020/21,* supported by International Financial Reporting Standards (IFRS) and the statutory guidance issued under section 12 of the 2003 Act.

The accounting convention adopted in the statement of accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

ii. Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made and received. In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract;
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand deposits with financial institutions repayable without penalty on notice of not more than 24 hours, or card payments made by customers with a two day business settlement period or less. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash and insignificant risk in change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimations and Errors

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

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

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

v. Charges to Revenue for Non-Current Assets

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

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

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

vi. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as salaries, paid annual leave and flexi-time balances for current employees. They are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the Non-distributed Costs line in the Comprehensive Income and Expenditure Statements when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary severance.

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

Post-Employment Benefits

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

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

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

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

The Local Government Pension Scheme

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

- The liabilities of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees;

- Liabilities are discounted to their value at current prices;
- The assets of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet at their fair value. Quoted securities at current bid price, unquoted securities at professional estimate, and unitised securities at current bid price and property at market value.

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

- Current Service Cost - the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
- Past Service Cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
- Net interest on the net defined liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather that as benefits are earned by employees.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

vii. Events after the Reporting Period

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

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

viii. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for the interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts the estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and the interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where the premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund or Housing Revenue Account Balances to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

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

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

Financial Assets Measured At Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Expected Credit Loss Model

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

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

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

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

Financial Assets Measured at Fair Value through Other Comprehensive Income (FVOCI)

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

Fair Value Measurements of Financial Assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the Council’s financial assets are based on the following techniques:

- Instruments with quoted market prices - the market price; and
- Other instruments with fixed and determinable payments – discounted cash flow analysis. The Council does not carry any of these financial assets.

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date;

- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly;
- Level 3 inputs – unobservable inputs for the asset.

Any gains and losses that arise from the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Financial Instruments Revaluation Reserve.

The Council designates that investments held for strategic purposes be classified as being measured as FVOCI. Any gains and losses on these investments will be held in the Financial Instruments Revaluation Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset it written down and a charge made to the Financing and Investment Income and Expenditure line in the CIES. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

ix. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions are recognised as due to the Council when there is reasonable assurance that:

- The Council will comply with the conditions attached to the payments; and
- The grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset in the form of the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential embodied in the asset in the form of the grant and contribution are required to be consumed by the recipient as specified, or future economic benefits of service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. Where conditions are satisfied, the grant or contribution is credited to the relevant service (revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants received in advance. Where it has been applied, it is posted to the Capital Adjustment Account once they have been applied to fund capital expenditure.

x. Heritage Assets

A heritage asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Heritage assets are valued at insurance replacement value where available, otherwise assets are held at depreciated historic cost since the cost of obtaining a valuation would outweigh the benefits to users of the accounts.

xi. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as result of past events (i.e. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service(s) line in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

xii. Interests in Companies and Other Entities

The Council has an interest in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities. In the Council's own single entity accounts these interests are recorded as the share of net assets.

xiii. Inventories

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the First In First Out (FIFO) costing formula.

xiv. Allocation of Central Support Services

Support services will not be recharged although the costs of services provided by the Council will be charged to separate accounts such as the Housing Revenue Account. The costs of support and other services will be allocated in government returns as required.

xv. Property, Plant and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;
- Any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in cash flows of the Council). In the latter case, where an asset is acquired via an exchange the cost of the acquisition is the carrying amount of the asset given up by the Council.

Assets are carried in the balance sheet using the following measurement bases, in line with *IFRS 13*:

- Council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH). Gross valuations are reduced by applying the discount factor which is designed to reflect that houses are only available for social use. Any new build housing and newly purchased houses are valued at historic cost;
- Other land and buildings – current value, determined by the amount that would be paid for the asset in its existing use (existing use value – EUV);
- Community and infrastructure assets – depreciated historical cost;
- Vehicles, Plant and Equipment – depreciated historical cost;
- Assets under construction – historical cost;
- Surplus Assets – fair value based on open market value.

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Assets included in the Balance Sheet at current value are revalued as a minimum every five years to ensure their carrying amount is not materially different from their current value at year-end. As part of the Council's plan for revaluation, a move has been made to revalue all items in a specific category in the same year, if one of the assets in the category has been revalued. Increases in valuations are matched by credits to the Revaluation Reserve to recognise any unrealised gains. Exceptionally, gains might be credited to CIES where they arise from the reversal of a loss that has been previously charged to the service.

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);

- Where there is no balance in the Revaluation Reserve or an insufficient balance the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end to establish whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

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

Where an impairment loss is subsequently reversed, the reversal is credited to the Revaluation Reserve or the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuers;
- Vehicles, plant and equipment – straight-line allocation over the useful life of the assets in Balance Sheet, as advised by a suitably qualified officer);
- Infrastructure – straight-line allocation;

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Council policy is to only consider any asset with a gross book value of £1.5 million or above. The assessment of which components of these assets require to be recognised and depreciated separately is based on the cost of each of component. Significance is determined by comparing the cost of components against the overall cost of the asset. This threshold is set at 15% or more of the overall cost of the asset.

Revaluation gains are also depreciated, with an amount equal to the difference between the current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When is becomes probable that the carrying amount of the asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure Line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

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

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

xvi. Public Private Partnership (PPP) and Similar Contracts

Such contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the contractor. As the Council is deemed to control the services that are provided under its schemes, and where ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are re-valued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the CIES;
- Finance Cost – an interest charge on the outstanding Balance Sheet liability debited to the Financing and Investment Income and Expenditure line in the CIES, the interest charges are as follows:
    - Dalkeith Schools - 9.69%;
    - Midlothian Primary Schools - 7.29%;
    - Newbattle Community Campus - 5.06%;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- Liability repayment – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write-downs is calculated using the same principles as for a finance lease;
- Service charge and lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

xvii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (i.e. insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the authority settled the obligation.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation, whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not definite that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council.

Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

xviii. Reserves

Reserves are created by transferring amounts out of the General Fund Balance. When Expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

xix. Revenue Expenditure funded from Capital under Statute (Refcus)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service line in the CIES in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

xx. VAT

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

xxi. Fair Value Measurement of Non-Financial Assets

The Council values some of its non-financial assets, such as Surplus Assets and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement assumes the transaction to sell the asset takes place either:

- In the principal market for the asset; or
- In the absence of a principal market, in the most advantageous market for the asset.

The Council measures the fair value of an asset using the assumptions that market participants would use when pricing the asset or liability, assuming the market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its best and highest use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which Fair Value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

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

2. Accounting Standards Issued, Not Yet Adopted

The code requires disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2021/22 code.

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

The changes will be effective from the 1st April 2021 and none are expected to have a material impact on the Council's 2020/21 or 2021/22 financial statements.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in ***Note 1***, the Council has to make certain judgements about complex transactions or those involving uncertainty about future events (***see Note 4***). The accounting policies considered and critical judgements made in the annual accounts are:

- There is a high degree of uncertainty about future levels of funding for Local Government, however the Council has determined that the uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close the facilities and to reduce levels of service provision;
- The Council has entered into Public-Private Partnerships (PPP) and similar type contracts for the provision of educational buildings and waste facilities as detailed in ***Note 32***. For each of these contracts the Council has considered the tests under IFRIC 12 and concluded the following:-

  The Council is deemed to control the services provided under the scheme and ownership of schools will pass to the Council at the end of the contract. The educational buildings are therefore all recognised as Property, Plant and Equipment on the Council's Balance Sheet.

  The Council is deemed to control 20% of the services provided under the Design, Build, Finance and Maintain (DBFM) for the Residual Waste Treatment Plant (80% controlled by Edinburgh Council) and is therefore recognised as Property, Plant and Equipment on the Council's Balance Sheet. The Council is not deemed to control the Millerhill Food Waste Treatment Plant and has therefore concluded this is a service concession.

4. Future Assumptions and Estimation Uncertainties

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.

The items in the Councils Balance Sheet as at 31 March 2021 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Property, Plant and Equipment

Uncertainties	Effect if Actual Results Differ from Assumptions
Assets are carried in the balance sheet using a range of measurement bases, in line with IFRS 13. A number of assumptions are used in arriving at the valuation of assets which are determined by Royal Institute of Chartered Surveyors (RICS) qualified valuers employed within the Council's Asset Management Team. Assets are depreciated over useful lives that are dependent on a number of assumptions including the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets. Consideration has been given to the effects of the Covid-19 Pandemic on the council's property assets and their associated values although to date there is limited market evidence to indicate the impact on particular categories of non-current asset.	The net book value of all council property, plant and equipment subject to revaluation through the 5 year revaluation cycle is £813.889 million. Assets revalued in 2020/21 totalled £302.201 million before revaluation. The impact of a 5% change in valuation of these would be £19.787 million, either resulting in an increase or decrease in the Council's revaluation reserve or an additional impairment charge. There would be no impact on the Council's general fund. If the useful life of the asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £2.984m for every year that useful lives had to be reduced.

Council Tax and Non- Domestic Rates Debt

Uncertainties	Effect if Actual Results Differ from Assumptions
As at 31 March the authority has Council Tax and Non-Domestic Rates debt due of £42.722 Management reviewed this balance at 31 March and determined that an allowance for doubtful debts, detailed in ***Note 21***, of £37.145 million was appropriate. However, it is recognised that in the current economic climate and taking into account the impact of Covid-19 there is increased uncertainty around the recoverability of debtor balances. Management has continued to review all material outstanding balances at the year-end subsequent to 31 March, and has not determined any further allowance is required based on recovery to date.	If collection rates were to deteriorate then this will result in an increase in the provision required i.e. 1% would require an increase of £0.371 million, 3% an increase of £1.114 million and 5% an increase of £1.857million.

Pension Liability

Uncertainties	Effect if Actual Results Differ from Assumptions
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which earnings are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. This is further detailed in ***Note 34*** to the Accounts which includes a table setting out the potential sensitivity change in assumptions on the Pension Liability. Hymans Robertson LLP are engaged to provide the Council with expert advice about the assumptions applied. The value of the Council's share of assets in the Lothian Pension Fund is also subject to estimation uncertainty, which has increased in 2020/21 as a result of the outbreak of Covid-19. As a result, Lothian Pension Fund has disclosed a material uncertainty around the valuation of its property assets held at 31 March 2021 (approximately 7% of the total fund assets). This uncertainty means that less certainty, and a higher degree of caution, is attached to the valuation of the Fund's investment property assets than would normally be the case and that the valuation of these assets is kept under more frequent review. The inclusion of the material valuation uncertainty does not mean that the valuation cannot be relied on, but rather to be clear and transparent with all parties that less certainty is attached to the stated valuations.	The effects of the net pension liability of changes in individual assumptions can be measured. For instance, it is estimated that a one year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%. However the assumptions interact in complex ways. During 2020/21 the Council's actuary advised that the net pensions liability had increased by £43.311 million as a result of estimates being corrected as a result of experience of £11.565 million and £31.746 million attributable to updating of the assumptions.

5. Events after the Reporting Period

The Unaudited Accounts were authorised for issue by the Chief Officer, Corporate Solutions on 30th June 2021. Events taken place after this date are not reflected in the annual accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 21, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

6. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2020/21

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes (1)**	**Net change for pension adjustments (2)**	**Other Adjustments (3)**	**Total Adjustments**
	£000	***£000***	***£000***	***£000***
Management and Members	0	86	10	96
Children's Services, Partnerships & Communities	329	463	25	817
Education	11,365	4,842	1,368	17,575
Adult Health and Social Care	(208)	0	46	(162)
Midlothian Integrated Joint Board	1,066	1,173	298	2,537
Place	8,652	2,434	2,002	13,088
Corporate Solutions	1,669	(183)	(2,507)	(1,021)
Housing Revenue Account	26,942	397	0	27,339
Joint Boards	0	0	0	0
Central Costs	0	0	0	0
Non-Distributable Costs	0	0	3	3
Net Cost of Services	**49,815**	**9,212**	**1,245**	**60,272**
Other income and expenditure from the Expenditure and Funding Analysis	(34,435)	2,352	(9)	(32,092)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**15,380**	**11,564**	**1,236**	**28,180**

Adjustments between Funding and Accounting Basis 2019/20

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

(1) Adjustments for Capital Purposes

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

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

(2) Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of *IAS 19 Employee Benefits* pension related expenditure and income:

- **For services** – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs;
- **For financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

(3) Other Adjustments

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

- **For services** – this represents the amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements and the removal of the impact of internal recharges from segments in the CIES, in accordance with IFRS 8 and associated guidance;
- **For financing and investment income and expenditure** – this is an effective interest adjustment on the Council's Lender Option/Borrower Option (LOBO) debt.

7. Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement (CIES) recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out the description of the reserves that the adjustments are made against.

General Fund Balance – The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund balance, which is not necessarily in accordance with proper accounting practice. The General Fund balance therefore summarises the resources that the Council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Housing Revenue Account (HRA) – The HRA balance reflects the statutory obligation to maintain a revenue account for local authority council housing provision in accordance with Part VI of the *Local Government and Housing Act 1989*. It contains the balance of income and expenditure as defined by the 1989 Act that is available to fund future expenditure in connection with the Council's landlord function or (where in deficit) that is required to be recovered from tenants in future years.

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

2020/21	General Fund Reserve £000	Housing Revenue Account £000	Capital Fund £000	Total Useable Reserves £000	Total Unusable Reserves £000
Adjustments to the Revenue Resources					
Amounts by which income and expenditure included in the comprehensive income and expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:					
• Pensions Costs	(11,077)	(488)	0	**(11,565)**	11,565
• Financial Instruments	9	0	0	**9**	(9)
• Short-term Accumulated Absences	(1,245)	0	0	**(1,245)**	1,245
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure	(22,861)	(26,954)	0	**(49,814)**	49,814
Total Adjustments to Revenue Resources	**(35,173)**	**(27,442)**	**0**	**(62,615)**	**62,615**
Adjustments between Revenue and Capital Resources					
Net gain or loss on sale of non-current assets	(11)	(19)	0	**(30)**	30
Statutory provision for the repayment of debt	5,806	5,447	0	**11,253**	(11,252)
Total Adjustments between Revenue and Capital Resources	**5,795**	**5,428**	**0**	**11,223**	**(11,222)**
Adjustments to Capital Resources					
Application of capital grants to finance capital expenditure	22,986	0	0	**22,986**	(22,986)
Total Adjustments to Capital Resources	22,986	0	0	22,986	(22,986)
Total Adjustments	**(6,392)**	**(22,014)**	**0**	**(28,406)**	**28,407**

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

8. Movement in Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet general fund expenditure in 2021/22.

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

9. Other Operating Income and Expenditure

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

10. Financing and Investment Income and Expenditure

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

11. Taxation and Non-Specific Grant Income

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

12. Group and Council Expenditure and Income Analysed by Nature

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

2019/20 £000	Expenditure and Income Analysis	2020/21 £000
	Expenditure	
168,255	Employee Expenses	170,475
189,042	Other Service Expenses	201,584
14,532	Depreciation, amortisation and impairment	49,815
15,411	Interest payments	16,200
724	Gain/(Loss) on the disposal of non-current assets	30
(286)	Share of operating results of associates	(4,121)
387,678	**Total Expenditure**	**433,983**
	Income	
(81,650)	Fees, Charges and Other Service Income	(70,733)
(889)	Interest and Investment Income	(751)
(46,380)	Income from council tax	(49,301)
(285,953)	Government Grants and Contributions	(309,374)
(414,872)	**Total Income**	**(430,159)**
(27,194)	**Total**	**(3,824)**

13. Property, Plant and Equipment

Movements on Balances

Movements in 2020/21	Council Dwellings	Buildings	Land	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total
Cost or Valuation	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 1 April 2020	**415,856**	**403,917**	**16,431**	**35,789**	**75,867**	**7,753**	**37,779**	**3,012**	**996,404**
Additions	5,887	3,006	76	3,501	2,200	114	17,238	0	32,022
De-recognition - Disposals	(370)	(30)	(34)	(1,277)	0	0	0	0	(1,711)
Reclassification of Assets	10,396	12,704	(904)	(356)	0	334	(22,171)	(3)	0
Revaluation increases/(decreases) recognised in the CIES	(16,814)	(869)	(55)	0	0	(180)	0	(83)	(18,001)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(72)	62,915	1,609	0	0	183	0	(1,849)	62,786
Other Movements	0	0	(34)	0	0	0	0	0	(34)
Balance at 31 March 2021	**414,883**	**481,643**	**17,089**	**37,657**	**78,067**	**8,204**	**32,846**	**1,077**	**1,071,466**
Accumulated Depreciation and Impairment									
Balance at 1 April 2020	**(8,109)**	**(26,287)**	**0**	**(25,571)**	**(44,682)**	**(134)**	**0**	**0**	**(104,783)**
Depreciation Charge	(10,153)	(16,399)	0	(2,874)	(3,823)	(69)	0	0	(29,557)
De-recognition - Disposals	352	11	0	1,182	0	0	0	0	1,545
Reclassification of Assets	0	0	0	143	0	(143)	0	0	0
Depreciation written out to the CIES	0	1,414	0	0	0	105	0	0	1,519
Depreciation written out to the Revaluation Reserve	0	26,962	0	0	0	71	0	0	23,272
Balance at 31 March 2021	**(17,910)**	**(14,299)**	**0**	**(27,120)**	**(48,505)**	**(170)**	**0**	**0**	**(108,004)**
Net Book Value									
At 31 March 2021	**396,973**	**467,344**	**17,089**	**10,537**	**29,562**	**8,034**	**32,846**	**1,077**	**963,462**
At 31 March 2020	**407,747**	**377,630**	**16,431**	**10,218**	**31,185**	**7,619**	**37,779**	**3,012**	**891,621**

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

Depreciation

The following useful lives are used in the calculation of depreciation for the categories of assets, except where the useful like is known to be different from these as a consequence of a Council decision:

- Council Dwellings – 40 to 60 years;
- Buildings – 10 to 30 years;
- Infrastructure – 5 to 10 years;
- Infrastructure – 15 years.

Capital Commitments

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

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

	Original Contractual Commitment	**Outstanding at 31 March 2021**
Capital Commitments	**£000**	**£000**
Housing Revenue Account Programme		
• Phase 3 New Social Housing: Site 53 Morris Road, Dalkeith	9,874	7,334
• Phase 3 New Social Housing: Site 116 Newmills Road, Dalkeith	12,935	12,766
• Phase 3 New Social Housing: Site 140 Dalhousie Mains Road, Bonnyrigg	9,715	9,042
Total Contractual Commitment	**32,524**	**29,142**

Revaluations

Valuations of the above categories of assets are undertaken by independent expert valuers engaged by the Council over a five-year rolling programme by Chartered Surveyors of the council's Estates department, in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors.

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

In addition to formal valuations of property, plant and equipment on a rolling basis over a five year period, the Council assesses all assets to ensure there are no material changes that should drive an earlier valuation, to ensure that, in line with the CIPFA code, assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. The Council's valuer has determined in his professional opinion that, at 31 March 2021, there has been no material change in the assets not subject to revaluation in the year that would require an earlier revaluation. The Council has continued to assess the valuation of its asset base subsequent to the financial year-end as summarised in note 5 to these financial statements.

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

14. Heritage Assets

The Council's chains and badges of office are the main heritage assets and have been included in the Balance Sheet at reinstatement cost, obtained from the Council's insurer.

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

15. Intangible Assets

The Council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item Property, Plant and Equipment. The intangible assets include software licences, warranties and internally generated assets.

The movement on Intangible Asset balances during the year is as follows:

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

16. Long-Term Debtors

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

17. Financial Instruments

Categories of Financial Instruments

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

Financial Assets

31 Mar 2020					31 Mar 2021			
Non-current	**Current**	**Total**			**Non-current**	**Current**	**Total**	
£000	**£000**	**£000**	**Financial Assets**	**Category**	**£000**	**£000**	**£000**	*Note*
0	24,682	24,682	Cash and Cash Equivalents	Amortised Cost	0	53,664	53,664	*22*
30,005	55,365	85,370	Short-term investments	Amortised Cost	60,449	14,993	75,442	*See Below*
0	15,900	15,900	Debtors	Amortised Cost	0	21,583	21,583	*21*
7,362	1	7,363	Long-term investments	Fair Value through Other Comprehensive income	5,823	1	5,824	*See Below*
37,367	**95,948**	**133,315**	**Total Financial Assets**		**66,272**	**90,241**	**156,513**	
3,713	6,207	9,920	Debtors not defined as financial instruments		3,943	7,677	11,620	*16 & 21*
41,080	**102,155**	**143,235**	**Total**		**70,215**	**97,918**	**168,133**	

The Short-term investments on the balance sheet comprises:

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

Financial Liabilities

31 Mar 2020					31 Mar 2021			
Non-current	Current	Total			Non-current	Current	Total	
£000	£000	£000	Financial Liabilities	Category	£000	£000	£000	*Note*
260,427	11,441	271,868	Borrowings	Amortised Cost	273,893	3,700	277,593	*See below*
85,080	9,435	94,515	PPP Liability	Amortised Cost	82,454	2,726	85,180	*32*
14,638	593	15,231	Donated Asset Account Liability	Amortised Cost	14,012	609	14,621	*32*
0	17,353	17,353	Creditors	Amortised Cost	0	13,595	13,595	*23*
360,145	**38,822**	**398,967**	**Total Financial Liabilities**		**370,359**	**20,630**	**390,989**	
0	17,651	17,651	Creditors not defined as financial instruments		0	30,131	30,131	*23*
360,145	**56,473**	**416,618**	**Total**		**370,359**	**50,761**	**421,120**	

The Council's borrowing is presented in the Balance Sheet as the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Borrowing is classed as either a long-term liability, repayable after twelve months or longer, or a current liability if it is repayable within twelve months. The external borrowing as shown in the Balance Sheet comprises:

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

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

Investments Designated at Fair Value through Other Comprehensive Income

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

Lothian Buses Plc

Midlothian Council holds a 5.5% shareholding in Lothian Buses plc, a company incorporated in January 1986 under the terms of the Transport Act 1985 to operate buses in the City of Edinburgh and its surrounding area.

The valuation basis for the Council's shareholding (350,000 £1 ordinary shares) is calculated as net share of equity attributable to equity holders in line with the published results of Lothian Buses.

Year to 31 Dec 19 £000		Year to 31 Dec 20 £000
	Profit/(Loss):	
(7,386)	Profit before taxation	(11,844)
(647)	Taxation	(219)
(8,033)	**Profit/(Loss) after Tax**	**(12,063)**
	Other Relevant Financial Information:	
168,438	Revenue	131,431
0	Ordinary Dividend	0
(12,317)	Transfer to/(from) reserves	(58,620)
135,641	Equity attributable to equity holders	77,021

Newbattle DBFMco Ltd

In 2017/18, the Council subscribed £0.333 million of subordinated debt in Newbattle DBFMco Limited, a company set up specifically to deliver the Council's Schools Newbattle Community Campus project.

Whilst the investment is sellable in the secondary market, the valuation basis for the Council's shareholding (nominal value of loan stock £0.333 million) is calculated based on the subscription value as there is no equivalent market data to estimate resale value.

The principal on this investment will be repaid fully over the 25-year project life. Interest will be paid biannually at 10.5% coupon based on the average principal outstanding over the relevant 6-month period.

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

Income, Expenses, Gains and Losses

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

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

Fair Values of Assets and Liabilities

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

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

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

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

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

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

31 Mar 20				31 Mar 21		
Carrying Amount	Fair Value (New Loan Rate)	Fair Value (Premature Redemption Rate)		Carrying Amount	Fair Value (New Loan Rate)	Fair Value (Premature Redemption Rate)
£000	**£000**	**£000**	**Financial Liabilities**	**£000**	**£000**	**£000**
231,227	267,874	399,750	PWLB Loans (Level 2)	237,807	289,998	352,821
20,865	30,702	46,702	Lender Option/Borrower Option (LOBO) Loans (Level 2)	20,856	32,553	39,912
19,776	20,853	29,750	Loans from commercial lenders and other local authorities (Level 2)	18,930	20,619	24,188
17,353	17,353	17,353	Creditors	13,595	13,595	13,595
94,515	94,515	94,515	PFI and Finance Lease Liability	85,180	85,180	85,180
15,231	15,231	15,231	Donated Asset Account Liability	14,621	14,621	14,621
398,967	**446,528**	**603,301**	**Total Financial Liabilities**	**390,989**	**456,566**	**530,317**

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

31 Mar 20			31 Mar 21	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000	Financial Assets	£000	£000
24,682	24,682	Cash and Cash Equivalents	53,664	53,664
85,369	86,092	Short-term Investments	75,442	76,710
15,900	15,900	Debtors	21,583	21,583
125,951	**126,674**	**Total Financial Assets**	**150,689**	**151,957**

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

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

18. Nature and Extent of Risks Arising from Financial Instruments

The Council's activities expose it to a variety of financial risks including:

- Credit risk – the possibility that other parties might fail to pay amounts due to the Council;
- Liquidity risk –the possibility that the Council might not have funds available to meet its commitments to make payments;
- Refinancing risk – the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms;
- Market risk – the possibility that financial loss might arise for the Council as a result of the changes in such measures as interest rates and stock market movements.

The Council has fully adopted CIPFA's Code of Treasury Management in the Public Services Code of Practice and set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

The Council's management of treasury risks actively works to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers.

The Treasury Management Strategy, which is set annually and is monitored throughout the year, sets out the limits on both duration and maximum levels of deposits. The lower an institution's creditworthiness the lower the maximum duration and level of deposit will be. These Counterparties are chosen, by officers, using credit data supplied by the Council's treasury advisers (based on data from the three main credit rating agencies, overlaid by:

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

It is the policy of the Council to place deposits only with a limited number of banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council also has a policy of limiting deposits to £15 million per institution, other than for UK Nationalised and Part-Nationalised institutions where the maximum is extended to £30 million. No credit limits were exceeded during the financial year.

The expected credit loss for the Council's financial assets held at amortised cost has been calculated to be £0.003 million (2019/20 £0.007 million). The Council deems this immaterial and therefore has not included any impact of this with the Comprehensive Income and Expenditure Statement (CIES).

The expected credit loss for the Council's financial assets held at FVOCI is expected to be zero, calculated on the following basis:

- Lothian Buses Shareholding – Excluding 2020 and 2021, there has been no default on the dividend payable to the Council over the period the Council has held this investment;
- Subordinated Debt Investment in Newbattle DBFM Co SPV – Whilst there is no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance with the DBFM Co or any indications that future scheduled lifecycle maintenance will not be able to take place or senior and/or subordinated debt will not be able to be repaid. The Council will continue to review the performance of the SPC on an annual basis.

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

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

Liquidity Risk

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

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

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

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

Refinancing Risk

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

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

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

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

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

Market Risk

Interest Rate Risk

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

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

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

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 30% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2020, if interest rates had been 1% higher with all other values held constant, the financial effect would be:

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

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

There is no price risk associated with the Council's available for sale investments specified in ***Note 18*** of the Financial Statements.

Foreign Exchange Risk

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

19. Assets Held for Sale

2019/20 £000	Assets Held For Sale	2020/21 £000
5,543	**Balance outstanding at 1 April**	**1,371**
400	Assets newly classified as held for sale	0
(759)	Revaluations and Restatements	32
20	Additions	0
(3,833)	Assets disposed of during the year	(150)
1,371	**Balance outstanding at 31 March**	**1,253**

20. Inventories

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

21. Short-Term Debtors

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

* For impairment, significant individual balances are considered before a collective impairment of all remaining debtors based on their age profile. Impairment is applied to all outstanding debt at the balance sheet date for Council Tax and Non-Domestic Rates of £37.145 million (2019/20 £22.751 million) and Rents of £1.780 million (2019/20 £1.6 million). For sundry debtors all debts that are over six months past their payment date impairment will be applied of £1.628 (2019/20 £2.025).

22. Cash and Cash Equivalents

2019/20 £000	Cash and Cash Equivalents	2020/21 £000
238	Cash held by the Council	200
26,391	Short-term Deposits	56,769
(1,947)	Bank Current Accounts	(3,305)
24,682	**Total Cash and Cash Equivalents**	**53,664**

23. Creditors

2019/20 £000	Creditors	2020/21 £000
1,418	Central Government Bodies	868
2,075	Other Public Sector Bodies	8,421
41,538	Other Entities and Individuals	34,437
45,031	**Creditors**	**43,726**

24. Provisions

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

Notes:

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

25. Usable Reserves

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

26. Unusable Reserves

2019/20 £000	Unusable Reserves	2020/21 £000
(142,443)	Revaluation Reserve	(224,283)
(359,447)	Capital Adjustment Account	(352,163)
97,719	Pensions Reserve	141,030
7145	Accumulated Absences Account	8,390
1,997	Financial Instruments Adjustment Account	1,829
(6,686)	Financial Instruments Revaluation Reserve	(5,149)
(401,715)	**Total Unusable Reserves**	**(430,346)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1st April 2007, the date the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2019/20 £000	Revaluation Reserve		2020/21 £000
(143,590)	Balance at 31 March		**(142,443)**
35,521	Adjustments to Opening Balance		
(108,069)	**Revised Balance at 1 April**		**(142,443)**
(44,001)	(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		(90,138)
7,166	Difference between fair value depreciation and historical cost depreciation	8,123	
2,461	Accumulated (gains)/losses on assets sold	175	
9,627	**Amount written off to the Capital Adjustment Account**		**8,298**
(142,443)	**Balance at 31 March**		**(224,283)**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement. The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and subsequent expenditure.

The account also contains revaluation gains accumulated on property, plant and equipment before the 1st April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 7 provides further details of transactions posted to the account.

2019/20 £000	Capital Adjustment Account		2020/21 £000
(285,364)	Balance at 31 March		(359,447)
(35,521)	Adjustments to Opening Balance		**0**
(320,885)	**Revised Balance at 1 April**		**(359,447)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
33,071	• Charges for depreciation and impairment on non-current assets	33,321	
(18,856)	• Revaluation movements on property, plant and equipment	16,524	
316	• Amortisation of intangible assets	317	
592	• Revenue expenditure funded from capital under statute	0	
4,632	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	317	
19,755			50,479
(9,627)	Adjusting amounts written out of the Revaluation Reserve		(8,297)
10,128	**Net written out amount of the cost of non-current assets consumed in the year**		**42,182**
	Capital financing applied in the year:		
(3,909)	• Use of capital receipts to finance new capital expenditure	(287)	
(40,981)	• Capital grants and contributions credited to the CIES that have been applied to capital financing	(21,780)	
(11,158)	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(11,252)	
7,632	• Capital Receipts transferred to Capital Fund	(1,206)	
(48,416)			**(34,525)**
(274)	Other movements		(373)
(359,447)	**Balance at 31 March**		**(352,163)**

Pensions Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement (CIES) as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employers contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and resources the Council has set aside to meet them. Statutory arrangements will ensure that funding will have been set aside by the time benefits come to be paid.

2019/20 £000	Pensions Reserve	2020/21 £000
124,359	Balance at 1 April	97,719
(42,897)	Re-measurements of the net defined benefit liability/(asset)	31,746
31,997	Reversal of items relating to net changes for retirement benefits charged to Surplus or Deficit on the Provision of Services in the CIES	27,807
(15,740)	Employers pension contributions	(16,242)
97,719	**Balance at 31 March**	**141,030**

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

2019/20 £000	Accumulated Absences Account		2020/21 £000
5,633	**Balance at 1 April**		**7,145**
(5,633)	Settlement or cancellation of accrual made at the end of the preceding year	(7,145)	
7,145	Amounts accrued at the end of the current year	8,390	
1,512	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		1,245
7,145	**Balance at 31 March**		**8,390**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

2019/20 £000	Financial Instruments Adjustment Account	2020/21 £000
2,165	Balance at 1 April	1,997
(159)	Premiums incurred in the year charged to the CIES	(159)
(9)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in year in accordance with statutory requirements	(9)
1,997	**Balance at 31 March**	**1,829**

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market process or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost or disposed of and the gains are realised.

2019/20 £000	Financial Instruments Adjustment Account	2020/21 £000
(7,743)	Balance at 1 April	(6,686)
1,057	(Upward)/Downward Revaluation of Investments	1,537
(6,686)	**Balance at 31 March**	**(5,149)**

27. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21.

2019/20 £000	Grant Income	2020/21 £000
	Credited to Taxation and Non-Specific Grant Income and Expenditure:	
10,289	General Capital Grant	6,957
10,252	Affordable Housing Supply Programme	9,044
10,479	Developer Contributions	3,421
1,067	General Capital Grant – Early Years Childcare	2,849
740	Low Emission Zone Grant	0
1,979	Other Capital Grants and Contributions	715
34,806	**Total**	**22,986**
	Credited to Services:	
21,387	Housing Benefit Subsidy	20,868
0	Early Years Expansion Grant	11,725
2,444	Unitary Charge Funding	2,428
2,253	Pupil Equity Funding	2,210
1,341	Community Justice Grant	1,420
0	Education COVID Support Grant	1,175
1,073	LEADER Programme	575
0	Young Persons Guarantee	520
0	Energy Efficient Scotland	509
884	Regenerating Rosewell Project	0
0	Track 2 Train	0
2,107	Other Entities and Individuals	3,457
31,489	**Total**	**44,887**

28. Capital Grants Received in Advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the grantor. The balances at year-end are as follows:

2019/20 £000	Capital Grants Received in Advance		2020/21 £000
31,040	Balance at 1 April		33,927
	New capital grants received in advance, conditions of use no met:		
6,300	• Scottish Government Early Years Grant	4,300	
699	• Scottish Government Town Centre Capital Fund	311	
7,806	• Section 75 contributions from private developers	5,617	
(4)	• Other Grants Received in Advance	36	
14,800			10,264
(11,914)	Amounts realised to CIES, conditions of use met		(5,528)
33,927	**Balance at 31 March**		**38,663**

29. External Audit Costs

The estimated fee payable to Audit Scotland in respect of the work carried out for audit services is £0.238 million (2019/20 £0.277 million). This includes external audit services carried out by the appointed auditor, Ernst and Young LLP. Where further additional work is required, fees will be agreed with management and reported to the Audit Committee.

30. Related Parties

The Council is required to disclose material transactions with related parties, that is bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council.

The Scottish Government

The Scottish Government has significant influence over the general operations of the Council, being responsible for providing the statutory framework within which the Council operates. The Scottish Government also provides the majority of the Council's funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (such as Council Tax bills and Housing Benefits).

Officers

There are no related party transactions with officers of the Council.

Elected Members

Elected members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2020/21 is shown in the Remuneration Report.

Members' Register of Interests can be viewed on the Council's website. A review of these interests has been conducted. Related party interests for which transactions exist in 2020/21 were declared by nine members:

- With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.559 million.
- With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.420 million.

In addition to the above many members have relationships or hold positions with other public bodies and voluntary organisations with which the Council does not have a financially material relationship but with which the Council has a financial or influential relationship.

Entities Controlled or Significantly Influenced by the Council

During the year the Council entered into material transactions with the Lothian Valuation Board. This amounted to £0.567 million (2019/20 £0.549 million). There was no balance due to or from the Lothian Valuation Board as at 31 March 2021.

The Council has a number of joint working arrangements with other local authorities. In 2020/21 payments of £1.755 million were made to other local authorities and income of £0.533 million was received from other local authorities.

The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.903 million of resource transfer funding to the Council in 2020/21 in respect of activities delegated to the Midlothian Integration Joint Board, as well as an additional £4.816 million in relation to Social Care Fund, £1.524 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

The Council delegated resources totalling £44.985 million to the Midlothian Integration Joint Board in 2020/21. These resources were allocated to the Council for the provision of Adult Social Care services. NHS Lothian also delegated financial resources to the Board. The Board provides the strategic direction in relation to the delivery of Health and Adult Social Care Services in Midlothian. The Council provides assistance in kind in terms of Board staff (Chief Officer) and administrative support for the operation of the Board. In addition no charge is made for central support functions provided over and above the resources delegated which relate specifically to Adult Social Care. As at 31 March 2021 the Council held £7.367million on behalf of the Board.

31. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PPP contracts), together with the resources that have been used to finance them.

2019/20 £000	Capital Expenditure and Capital Financing		2020/21 £000
359,774	Opening Capital Financing Requirement		394,261
	Capital Investment:		
55,745	Property, Plant and Equipment	32,964	
168	Intangible Assets	246	
27,743	Long-term liabilities	0	
592	Revenue expenditure funded from capital under statute	0	
84,248	**Total Capital Investment**		**33,210**
	Sources of Finance:		
(487)	Capital Receipts	(975)	
(22,916)	Government Grants	(19,632)	
(14,632)	Contributions from other bodies	(3,603)	
(11,726)	Loans fund and lease repayments	(18,101)	
(49,761)	**Total Sources of Finance**		**(42,311)**
34,487	**Increase/(decrease) in Capital Financing Requirement**		**(9,101)**
394,261	**Closing Capital Financing Requirement**		**385,160**

32. Public Private Partnership (PPP) and Similar Contracts

The Council has entered into five such contracts:

Dalkeith Schools Campus

This is a 30-year PPP contract with Dalkeith SPV Ltd for the provision and facilities management of the Campus. When the agreement ends in 2034 the Campus facilities will transfer to the Council with a guaranteed maintenance - free life of five years. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with one contract months' notice.

Midlothian Schools Ltd

This is a PPP contract for the provision and facilities management of Stobhill. Gorebridge, Tynewater, Moorfoot, Loanhead and St Margaret's, Lawfield and Strathesk Primary Schools. When the agreement ends in 2037 the facilities will transfer to the Council in a usable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with six months' notice.

Newbattle Community Campus

This is a 25-year Not for Profit Distributing Model (NPDM) contract with hubCo for the provision and lifecycle maintenance of the Campus. The facility opened in the financial year 2018/19 on 25th May 2018. When the agreement ends in 2043 the facilities will transfer to the Council in a useable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice of voluntary termination with variable notice periods as defined in the contract.

Food Waste Treatment Plant, Millerhill

This is a 20- year Design, Build, Finance and Maintain (DBFM) contract which was jointly procured between Midlothian and the City of Edinburgh Council. At the end of the concession period in 2036 the asset will not revert back to the partner Councils and will remain under the full control of the DBFO operator, who has the option to continue to operate the asset from year 20 through to year 40, paying the market rent for the lease of the land over this period. At the end of the 40th year, the asset will be decommissioned and the decommissioned site transferred back to the ownership of the Councils. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 40 days' notice.

Residual Waste Treatment Plant, Millerhill

This is a 25- year DBFM contract which was jointly procured between Midlothian and the City of Edinburgh Council. At 1 April 2020 the contract was in the commissioning phase, with full service commencement achieved on 17 April 2019. The asset will be fully maintained throughout the life of the contract in accordance with the Partner Council's requirements and will be inspected 18 months prior to the end of the contract (contract end date 6 May 2044) to ensure that it has been maintained. The asset will then be handed back to the Partner Councils in a condition that is commensurate with such maintenance. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice, the issue of a Partner Council Default notice, or voluntary termination by the Partner Councils with variable notice periods as defined in the contract.

The value of assets held under such arrangement at 31 March 2021 are as follows:

2019/20 £000	Value of Assets	2020/21 £000
99,584	Balance at 1 April	143,308
(3,534)	Depreciation	(2,560)
4,038	Written Back Depreciation on Revaluation	4,240
15,026	Revaluation	27,567
28,194	Additions	113
143,308	**Balance at 31 March**	**172,668**

The assets used to provide the services at the Dalkeith Schools Community Campus, the Primary Schools, the Newbattle Community Campus and the Millerhill Residual Waste Plant are recognised in the Council's Balance Sheet under the Property, Plant and Equipment category.

There is a donated asset account at 31 March 2021 for the financing of the Millerhill Residual Waste asset of £14.621 million (2019/20 £15.230 million). The recognition of donated asset income will be on a flat line basis over the remaining 25 years of the contract.

There is a deferred liability at 31 March 2021 for the financing of these assets of £85.180 million (2019/20 £95.267 million), with the movement including the payment of the capital contribution for the Millerhill Facility of £7.380 million.

During the year a total of £9.980 million (2019/20 £3.096 million) was paid in relation to finance lease deferred liabilities under such contracts. Details of future payments to be made under arrangements are:

	Liability	Interest	Service Charge	Total
Dalkeith Schools Campus	**£000**	**£000**	**£000**	**£000**
Within 1 Year	919	2,008	2,126	5,053
Within 2 to 5 Years	4,659	7,048	9,050	20,757
Within 6 to 10 Years	8,858	5,776	12,645	27,279
Within 11 to 15 Years	6,282	1,131	7,035	14,448
Total Remaining Contract	**20,718**	**15,963**	**30,856**	**67,537**

	Liability	Interest	Service Charge	Total
Midlothian Primary Schools	**£000**	**£000**	**£000**	**£000**
Within 1 Year	929	2,040	2,114	5,083
Within 2 to 5 Years	4,444	7,430	8,999	20,873
Within 6 to 10 Years	7,640	7,202	12,574	27,416
Within 11 to 15 Years	10,863	3,979	14,226	29,068
Within 16 to 20 Years	4,089	402	4,674	9,165
Total Remaining Contract	**27,965**	**21,053**	**42,587**	**91,605**

	Liability	Interest	Service Charge	Total
Newbattle Community Campus	**£000**	**£000**	**£000**	**£000**
Within 1 Year	808	1,602	127	2,537
Within 2 to 5 Years	3,662	5,978	542	10,182
Within 6 to 10 Years	5,720	6,329	758	12,807
Within 11 to 15 Years	7,321	4,729	857	12,907
Within 16 to 20 Years	9,369	2,681	970	13,020
Within 21 to 25 Years	4,797	378	455	5,630
Total Remaining Contract	**31,677**	**21,697**	**3,709**	**57,083**

	Donated Asset	Liability	Interest	Service Charge	Total
Millerhill Residual Waste	**£000**	**£000**	**£000**	**£000**	**£000**
Within 1 Year	609	70	810	777	2,266
Within 2 to 5 Years	2,437	265	3,133	3,389	9,224
Within 6 to 10 Years	3,046	371	3,674	4,832	11,922
Within 11 to 15 Years	3,046	827	3,231	5,308	12,412
Within 16 to 20 Years	3,046	1,635	2,284	6,001	12,966
Within 21 to 25 Years	2,437	1,651	566	4,084	8,895
Total Remaining Contract	**14,621**	**4,819**	**13,698**	**24,390**	**57,685**

33. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the authority are members of this Scottish Teachers Superannuation scheme which is administered by the Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on the percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the scheme is unfunded and the Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate by local authorities. The Council is not able to identify its share of underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2020/21 the Council paid £10.238 million (2019/20 £8.463 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 23% for 2020/21 (2019/20 1 Apr -31 Aug 2019 17.2%, 1 Sep 19 – 31 Mar 20 23%).

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on defined benefit basis (detailed in **note 34**).

34. Defined Benefit Pension Schemes

As part of the terms and conditions of employment and its officers, the authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments (for those benefits) and to disclose at the time the employees earn their future entitlement.

The Council participates in the *Local Government Pension (Scotland) Scheme*. Employees other than teachers are eligible to join this scheme. The scheme is administered by City of Edinburgh Council through Lothian Pension Fund. This is a funded defined benefit final salary scheme, meaning the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with the investment assets.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, and structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changed to inflation, bond yields and the performance of equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund and HRA the amounts required by statute as described in the accounting policies note.8

Transactions Relating to Post-Employment Benefits

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge that is required to be made against council tax is based on cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and HRA via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement.

2019/20 £000	Comprehensive Income and Expenditure Statement	2020/21 £000
	Cost of services:	
28,714	Current service cost	25,383
142	Past service cost (including curtailments)	72
	Financing and Investment Income and Expenditure:	
16,294	Interest cost	14,524
	Other Post Employment Benefit charged to the CIES:	
(13,153)	Expected Return on Scheme Assets	(12,172)
31,997	**Total Net Charged to the Surplus or Deficit on the Provision of Services**	**27,807**
	Other post-employment Benefits Charged to Other Comprehensive Income and Expenditure	
(42,897)	Re-measurement of the net defined liability	31,746
(10,900)	**Total post-employment benefits charged to the CIES**	**59,553**
	Movement in Reserves Statement	
10,900	Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code	(59,553)
15,740	Employers Contributions payable to the scheme	16,242
26,640	**Total Charged to the Movement in Reserves**	**(43,311)**

The amount included in the Balance Sheet arising from the Councils obligation in respect of its defined benefit plans is as follows:

2019/20 £000	Pensions Assets and Liabilities Recognised in the Balance Sheet	2020/21 £000
(625,441)	Present value of the defined benefit obligation	(747,208)
527,722	Fair value of Plan Assets	606,178
(97,719)	**Net liability arising from defined benefit obligation**	**(141,030)**

2019/20 £000	Reconciliation of the present value if the scheme liabilities (defined benefit obligation	2020/21 £000
669,772	**Opening Balance at 1 April**	**625,441**
28,714	Current service cost	25,383
16,294	Interest Cost	14,524
3,960	Contributions by Scheme Participants	4,112
(78,992)	Actuarial (gains)/losses	94,244
142	Past service cost (including curtailments)	72
(801)	Estimated Unfunded Benefits Paid	(770)
(13,648)	Estimated Benefits Paid	(15,798)
625,441	**Closing Balance at 31 March**	**747,208**

2019/20 £000	Reconciliation of the movements in the fair value of scheme assets	2020/21 £000
545,413	**Opening Balance at 1 April**	**527,722**
13,153	Expected Return on Assets	12,172
3,960	Contributions by Scheme Participants	4,112
14,939	Contributions by the Employer	15,472
801	Contributions in respect of Unfunded Benefits	770
(36,095)	Actuarial gains/(losses)	62,498
(801)	Unfunded Benefits Paid	(770)
(13,648)	Benefits Paid	(15,798)
527,722	**Closing Balance at 31 March**	**606,178**

Local Government legislation provides that Local Authorities have an obligation to meet their share of the expenditure of the Joint Boards of which they are constituent members. At 31 March 2021 the liability for Pensions sits at £8.125 million (2019/20 £6.113 million). As a consequence the Council has additional liabilities arising from the pension deficit of the Lothian Valuation Joint Board.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years are dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by the actuary and are based on the latest full valuation of the scheme as at 31 March 2017.

The main assumptions used by the actuary have been:

2019/20	Mortality Assumptions	2020/21
	Longevity at 65 for Current Pensioners:	
21.7	- Men (Years)	20.5
24.3	- Women (Years)	23.3
	Longevity at 65 for Future Pensioners:	
24.7	- Men (Years)	21.9
27.5	- Women (Years)	25.2
	Financial Assumptions	
1.9%	Rate of Inflation/increase in pensions	2.85%
3.5%	Rate of increase in salaries	3.35%
2.3%	Rate for discounting scheme liabilities	2.0%
4.2%	Expected Rate on Investment Returns	16.4%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from the previous period.

Pension Sensitivities at 31 March 21	Approximate % increase to the Employer Obligation	Approximate monetary amount £000
0.5% decrease Real Discount Rate	10%	76,394
0.5% increase in the Salary Increase Rate	1%	7,869
0.5 % increase in the Pension Increase Rate (CPI)	9%	66,890

Local Government Pension Scheme Assets Comprised

2019/20 Fair Value of Scheme Assets	2019/20 Percentage of Total Assets		Quoted prices in active markets	2020/21 Quoted prices not in active markets	Total Fair Value of Scheme Assets	2020/21 Percentage of Total Assets
£000		**Pension Fund Assets**	**£000**	**£000**	**£000**	
51,090	10%	Cash and Cash Equivalents	62,016	0	62,016	10%
		Equity Instruments:				
50,296	10%	Consumer	78,822	0	72,822	13%
76,110	14%	Manufacturing	87,406	0	87,406	14%
33,658	6%	Energy and Utilities	30,882	0	30,882	5%
34,322	7%	Financial Institutions	37,154	0	37,154	6%
36,518	7%	Health and Care	37,875	0	37,875	6%
22,811	4%	Information Technology	28,726	0	28,726	5%
38,528	7%	Other	48,128	0	48,128	8%
292,243	**55%**	**Sub-total Equity**				
		Bonds:				
28,261	5%	Corporate	0	20,677	20,677	4%
32,488	6%	Government	48,633	0	48,633	8%
60,749	**11%**	**Sub-total bonds**				
		Property:				
34,580	7%	UK	0	31,613	31,613	5%
465	0	Overseas	0	71	71	0%
35,045	**7%**	**Sub-total Property**				
		Investment Trusts and Unit Trusts:				
6,461	1%	Equities	8,566	0	8,566	1%
2,265	0%	Bonds	12,476	0	12,476	2%
74,200	14%	Infrastructure	0	69,389	69,389	12%
82,926	**15%**	**Sub-total Trusts**				
4,592	1%	Private Equity (all)	0	3,712	3,712	1%
1,077	0%	Derivatives: Forward Foreign Exchange Contracts	32	0	32	0%
527,722	**100%**	**Total Assets**	**480,716**	**125,462**	**606,178**	**100%**

Impact on the Council's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The fund has agreed a strategy with the scheme's actuary to achieve a funding rate of 100% of the overall liabilities of the fund in the longer term. Funding levels are monitored on an annual basis. The most recent triennial valuation was completed during 2020/21. The Fund's actuary reported that, at 31 March 2020, the funding level was at 104% and a period of 20 years had been adopted in assessing the level of contribution required. Employer's contributions in 2021/22 to 2023/24 are unchanged from 2020/21 and these are reflected in the Council's Medium Term Financial Strategy. The Council anticipates to pay £15.313 million in contributions to the scheme to 31 March 2022.

Projected Defined Benefit Cost

Analysis of projected amount to be charged to Operating Profit	Assets	Obligations	Net Liability/ (Asset)	% of Pay
Period ended 31 March 2022	**£000**	**£000**	**£000**	
Projected Current Service Cost	0	35,899	(35,899)	(52.0)
Past Service Cost (including curtailments)	0	0	0	0
Effect of Settlements	0	0	0	0
Total Service Cost	**0**	**35,899**	**(35,899)**	**(52.0)**
Interest Income on Plan Assets	12,161	0	12,161	17.6
Interest Cost on Defined Benefit Obligation	0	15,179	(15,179)	(22.0)
Total Net Interest Cost	**12,161**	**15,179**	**(3,018)**	**(4.4)**
Total Included in Profit and Loss	**12,161**	**51,078**	**(38,917)**	**(56.4)**

35. Contingent Liabilities

The Council recognises the potential for compensation claims deriving from Scottish Government's Limitation (Childhood Abuse) (Scotland) Act 2017 which removes the three year time limit on claims of child abuse. Some claims will be historic and relate to Lothian Regional Council, Midlothian District Council or their predecessors and some will date post reorganisation and relate to Midlothian Council. At the current time the Council has eight ongoing cases. These are currently at differing stages which range from waiting on further information from the pursuer's solicitors to cases being handled by our insurers, where the extent of our cover and the level of excess payable is being investigated. Of these ongoing cases there have been no value cited in the letter of claim and little case law to give any indication of what value might be attached to the case.

The assimilation of the stand-alone Lothian Buses Pension Fund into the general Lothian Pension Fund required all four Council shareholders in Lothian Buses Limited to enter into a deed of guarantee and act as guarantors for Lothian Buses Limited contributions to the general fund. Previously, whilst there was no formal guarantee in place for the stand alone Lothian Buses Fund, in the event of a default then the City of Edinburgh Council (as administering authority) would have looked to the four Council shareholders to make good any liability.

36. Contingent Assets

The Council has sought reimbursement from HMRC of VAT accounted for on sport and leisure charges on the basis they should be treated as non-business. The claims, which date back to 1981 proceeded to a First Tier Tax Tribunal (FTT) on 23-26 September 2019 which considered three lead claims covering Northern Ireland (Mid Ulster), England and Wales (Chelmsford) and Scotland (Midlothian). The decision of the tribunal for Midlothian was released on 17 October 2020 and found in favour of Midlothian in respect of the question of the provision of leisure services being under a special legal regime. As such they could be treated as exempt or non-business which would mean VAT would not be accounted for on the charges. However the FTT did not consider the distortion of completion issue for Midlothian, with both parties content that this would then be determined after the principal issues were considered by the FTT.

The expectation was that the question of distortion of completion would need to return to FTT for consideration if additional evidence was required or proceed straight to an Upper Tier Tribunal for consideration. The current position with these claims is that HMRC have advised, on a without prejudice basis, that they do not wish to appeal the FTT decision unless there are any objections raised by commercial operators in Scotland about the preferential VAT treatment which is to be afforded to local authorities as a consequence of the decision.

In accordance with the accounting code of practice, which adopts International Accounting Standard (IAS) 37- Provisions, Contingent Liabilities and Contingent Assets, with no amendment, the claims are at this time considered to represent a contingent asset in that the flow of economic benefits is only probable. IAS 37 is clear that only where the realisation of income is virtually certain that the related asset is not a contingent asset and its recognition is appropriate.

37. Agency Covid Business Grants

During the financial year, the Council undertook the administration of several Covid-19 related business grants on behalf of the Scottish Government, on an agency basis, with those associated with non-domestic rates administered on the Council's behalf by The City of Edinburgh Council.

During the year grant payments administered by The City of Edinburgh Council totalled £19.3 million (2019/20 nil) with those paid directly by the Council totalling £0.853 million (2019/20 nil). These Grants were funded by agency income received from the Scottish Government.

38. Trusts, Bequests, Common Good and Community Funds

There are some 15 active trusts, bequest and community funds of varying size managed by the Council, each of which has specific objectives and conditions. None of the funds are currently registered charities.

The main funds are:

2019/20 £000	Trusts, Bequests, Common Good and Community Funds	2020/21 £000
12	Dalkeith Common Good Fund	7
2	Penicuik Common Good Fund	2
51	Community Mining Funds	51
22	Other Funds	23
87	**Total**	**83**

A total of £0.038 million has been committed to be spent from these funds.

The funds do not represent assets of the Council and are included in the Balance Sheet as creditors except the Community Mining Funds that are held in separate bank accounts.

39. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2020/21 (The Code) requires Local Authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

Valuation of Property, Plant and Equipment

The basis of valuation across the combining entities is in accordance with the Code and there are no material inconsistencies with the policies adopted by Midlothian Council. The Integration Joint Board has no Property, Plant or Equipment.

Depreciation

The basis of valuation across the combining entities is in accordance with the Code and there are no material inconsistences with the policies adopted by Midlothian Council.

Goodwill

The Council has not paid any consideration for its interest and thus no goodwill is involved in the acquisition.

Basis of Consolidation

Subsidiaries are consolidated on a line-by-line basis. All other entities are accounted for under the accounting conventions of the "acquisition basis" using the equity method – the Council's share of the entities results and its share of other gains and losses (recognised in the Group CIES). All entities have the same reporting date as the Council.

Restrictions on the Transfer of Funds

The Council's share of the reserves of its associate and joint ventures is unusable i.e. it cannot be used to fund the Council's services to reduce taxation. Further details for each entity are as follows:

	Percentage Share in Entity	Share of Assets	Share of Liabilities	Share of Revenues	Share of (Profit)/Loss
Subsidiaries:		**£000**	**£000**	**£000**	**£000**
Trusts, Bequests, Common Good and Community Funds	100%	84	84	(3)	3
Pacific Shelf 826 Ltd	100%	0	44	0	3
Midlothian Energy Limited	50%	0	0	0	0
Associates:					
Lothian Valuation Joint Board	9%	214	870	(1,754)	196
Midlothian Integration Joint Board	50%	6,497	0	(78,501)	(4,186)

The information above agrees to the group accounts after the elimination of inter-company transactions.

Combining Entities

The following table provided further details about the entities incorporated into the Council's Group Accounts:

Group Entities	Nature of Body	Accounts Available From
Subsidiaries:		
Trusts, Bequests, Common Good and Community Funds	To award grants across Midlothian.	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith
Pacific Shelf 826 Ltd	Property Development.	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith
Midlothian Energy Limited	Energy generation, distribution and supply	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith
Associates:		
Lothian Joint Valuation Board	Maintains the electoral, council tax and non-domestic rates registers for the Edinburgh, Midlothian, West Lothian and East Lothian Councils.	The Treasurer, Lothian Joint Valuation Board, Edinburgh Council, Waverly Court, Edinburgh
Midlothian Integration Joint Board	Its purpose is to improve the well-being of families, our communities and of people who use health and social care services. The Integration Scheme determines when the Council will have shared responsibility for additional funding with NHS Lothian and is linked to demographic shifts and demand volumes linked to service delivery.	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith

Non-material Interests in Other Entities

In addition to the organisations outlined above, the Council also has an interest in Seemis Group LLP who provide Scottish Local Authorities with an Education Management System. Midlothian have a 1.90% interest in Seemis. Net assets at 31 March 2021 were £ (0.133) million, which would equate to a share of £ (0.003) million for Midlothian.

Housing Revenue Account

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

2019/20 £000	HRA Income and Expenditure Statement		2020/21 £000
	Expenditure		
6,257	Repairs and Maintenance	5,005	
5,245	Supervision and Management	5,297	
(9,063)	Depreciation, impairment and revaluation non-current assets	26,954	
(50)	Movement in the allowance for bad debtors	180	
3,023	Other Expenditure	1,936	
5,412	**Total Expenditure**		**39,372**
	Income:		
(28,631)	Gross Dwelling Rents	(29,123)	
(360)	Non-dwelling Rents	(345)	
(837)	Service Charge Income	(314)	
(37)	Other Income	2	
(29,865)	**Total Income**		**(29,780)**
(24,453)	**Net Expenditure or Income of HRA services as included in the Comprehensive Income and Expenditure Statement**		**9,592**
250	HRA Share of Corporate and Democratic Core		250
(24,203)	**Net (Income)/expenditure for HRA Services**		**9,842**
	HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:		
724	(Gain) or Loss on sale of HRA non-current assets	19	
6,028	Interest payable and similar charges	6,633	
(553)	Interest and investment income	(420)	
122	Net interest on the net defined liability benefit liability (asset)	91	
6,321			**6,323**
(17,882)	**(Surplus)/Deficit for the year on HRA Services**		**16,165**

Movement in the Housing Revenue Account

2019/20 £000	Movement on the HRA Statement		2020/21 £000
(39,084)	***Balance on the HRA at the end of the previous reporting period***		**(44,395)**
(17,882)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		16,165
	Adjustments between accounting basis and funding basis under statute:		
9,063	Depreciation, impairment and revaluation non-current assets	(26,954)	
(724)	Gain or (Loss) on sale of HRA non-current assets	(19)	
4,899	Loans Fund Principal	5,447	
0	Appropriation to General Fund Reserve	1,858	
(667)	Net charges made for retirement benefits in accordance with *IAS 19*	(487)	
12,571	Total Adjustments between accounting basis and funding basis under statute		(20,155)
(5,311)	**(Increase) or Decrease in year on the HRA**		**(3,990)**
(44,395)	**Balance on the HRA at the end of the current reporting period**		**(48,385)**

Notes to the Housing Revenue Account

Housing Stock

The number of council dwellings for the year can be analysed as follows:

2019/20	Housing Stock	2020/21
908	1 Bedroom	944
3,838	2 Bedroom	3,936
1,852	3 Bedroom	1,878
311	4 Bedroom	316
10	5/6 Bedroom	10
6,919	**Total Housing Stock at 31 March**	**7,084**

This represents an increase in the year of 165 (2019/20 73) of which 119 were new build completions, 14 were the market purchase of existing properties and 32 due to repurposing of properties to create additional temporary accommodation provision.

Other Information

2019/20 ,£000	Other Information	2020/21 £000
3,907	Total Rent Arrears	4,045
1,600	Bad Debt Provision	1,780
652	Void Rent Loss (netted against rental income)	881

Council Tax Income Account

The Council Tax Income Account (Scotland) shows the gross income raised from Council Taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the authority.

Local Authorities raise taxes from its residents through Council Tax, which is based on property values. Each dwelling in a local Council area is placed into one of eight valuation bands, A to H. The Council declares a tax for Band D properties and all other properties are charged a proportion of this, lower valued properties (Bands A to C) pay less; higher valued properties (Bands D to F) pay more.

2019/20 £000	Council Tax Income Account	2020/21 £000
58,547	**Gross Council Tax levied and Contributions in Lieu**	**62,373**
	Less:	
(4,810)	Council Tax Reduction Scheme	(5,257)
(5,855)	Other Discounts and Reductions	(6,321)
(1,573)	Write-off of Uncollectable Debts and Allowances for impairment	(1,674)
71	Prior year adjustments	180
46,380	**Net Council Tax Income transferred to General Fund**	**49,301**

Midlothian Council Tax Charge and Properties per Band

2019/20 Property Numbers	2019/20 £ per Property	Band	2020/21 Property Numbers	2020/21 £ per Property
2	747	A - Disabled	2	783
575	896	A	568	939
8,322	1,045	B	8,269	1,096
8,475	1,195	C	8,454	1,252
4,891	1,344	D	4,943	1,409
4,486	1,766	E	4,581	1,851
3,552	2,184	F	3,729	2,290
2,271	2,632	G	2,357	2,759
169	3,293	H	170	3,452
32,743			**33,073**	

Calculation of the Council Tax Base (shown as numbers of properties)

2020/21	**A (Disabled)**	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total No of Properties**
Number of Properties	0	975	12,592	11,078	5,698	5,149	3,962	2,502	176	42,132
Properties subject to Empty Homes Premium	0	11	38	34	16	12	9	5	3	128
Properties subject to Disabled Relief	2	37	42	(49)	1	(1)	(7)	(24)	(1)	0
Less:										
Exempt Properties	0	68	507	279	85	185	50	34	4	1,212
Properties Entitled to 25% Discounts	0	150	1,484	952	425	268	131	64	4	3,478
Properties Entitled to 50% Discounts	0	1	4	5	1	2	2	2	0	17
Properties Entitled to Other Discounts	0	4	18	15	7	5	3	1	0	53
Reduction in Tax Base due to Council Tax Reduction	0	232	2,390	1,358	254	119	49	25	0	4,427
Total Equivalent Properties 2020/21	**2**	**568**	**8,269**	**8,454**	**4,943**	**4,581**	**3,729**	**2,357**	**170**	**33,073**
Ratio to Band D	**0.56**	**0.67**	**0.78**	**0.89**	**1.00**	**1.31**	**1.63**	**1.96**	**2.45**	
Band D Equivalent Properties	**1**	**379**	**6,431**	**7,515**	**4,943**	**6,020**	**6,059**	**4,616**	**417**	**36,381**
Contributions in Lieu - Band D Equivalents										**193**
Sub-total										**36,574**
Less Bad Debt Provision at 3%										**(1,188)**
Total Council Tax Base										**35,386**

2019/20	**A (Disabled)**	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total No of Properties**
Band D Equivalent Properties	**1**	**383**	**6,473**	**7,533**	**4,891**	**5,894**	**5,771**	**4,448**	**413**	**35,808**
Contributions in Lieu - Band D Equivalents										197
Sub-total										**36,005**
Less Bad Debt Provision at 3%										(1,171)
Total Council Tax Base										**34,834**

Non-Domestic Rate Account

The Non-domestic Rate Account (Scotland) is a statement that reflects the statutory obligation for billing authorities to maintain a separate non-domestic rate account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2019/20 £000	Non-Domestic Rate Income Account	2020/21 £000
43,428	**Gross Council Tax levied and Contributions in Lieu**	**44,705**
	Less:	
(10,306)	Reliefs and other deductions	(25,375)
(606)	Write-off of Uncollectable Debts and Allowances for impairment	(353)
(32,516)	**Net Non-Domestic Rates Income**	**(18,977)**
(768)	Prior year adjustments	(2,002)
(176)	Non-domestic rates income retained by the authority (BRIS)	0
31,572	**Contribution to Non-Domestic Rate Pool**	**16,975**
	Allocated:	
31,667	Contribution to non-domestic rate pool	17,045
(95)	Council Rate Income - non-pool	(70)
31,572		**16,975**
31,615	Amount distributed to Midlothian Council from non-domestic rate pool	19,587

The Business Rate Incentivisation Scheme (BRIS) permits the authority to retain 50 percent share of the Non-domestic rates income, which exceeds the income target set by Scottish Government.

Net Rateable Value Calculation

Occupiers of non-domestic property pay rate based on the valuation of the property within the valuation roll for Midlothian. The NNDR poundage is determined by the Scottish Government and was 49.8p (2019/20 49p) per £, where the rateable value was less than £51,000 (2019/20 £29,000), 51.1p where the rateable value is between £51,000 and £95,000 and 52.4p (2019/20 51.6p) per £ where the rateable value exceeded 95,000 (2019/20) £51,000.

Small Business Bonus Scheme – from 1 April 2017, a ratepayer who occupies or is entitled to occupy one of more non-domestic properties with a combined rateable value of £18,000 or less may be eligible for a discount between 25% and 100% on their bill. In addition, where the cumulative rateable value of a business falls between 18,000 and 35,000, the scheme will offer 25% relief to individual properties with rateable value of up to £18,000.

2019/20 Numbers	2019/20 £000	Analysis of Rateable Values and Number of Premises	2020/21 Numbers	2020/21 £000
1,864	48,911	Shops, Offices and Other Commercial Subjects	1,838	49,245
939	17,207	Industrial and Freight Transport	937	16,921
300	21,334	Miscellaneous (Schools etc.)	308	21,153
3,103	**87,452**	**Total**	**3,083**	**87,319**

Glossary of Terms

While much of the terminology used in this report is intended to be self-explanatory, the following additional definitions and interpretation of terms may be of assistance.

Actuarial Gains and Losses (Pension)

For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) or the actuarial assumptions have changed.

Amortisation

Amortisation is the cost of reducing the value of an intangible asset over its useful economic life. A charge is made against services for the value of the assets they have used during the year.

Assets

An asset is any item that has value including cash, investments, properties, vehicles, etc. Assets are classified as current, which will be consumed within the current year, or non-current, which will be used to provide services over more than one year.

Associate

An entity other than a subsidiary or joint venture in which the reporting Council has a participating interest and over whose operating and financial policies, the reporting Council is able to exercise significant influence.

Capital Expenditure

This is expenditure incurred in creating, acquiring or improving assets where the expenditure is normally financed by borrowing with repayment over a period of years, or by utilising the income from the sale of existing assets.

Capital Financed from Current Revenue

This heading covers the costs of creating, acquiring or improving assets where the expenditure is charged directly to the Revenue Account.

Corporate and Democratic Core

Corporate and Democratic Core costs include the costs of policymaking and all other Councillor based activities together with costs that relate to the general running of the Council. The Best Value Accounting Code of Practice stipulates that such costs are to be excluded from the “total cost” relating to service activity.

Community Assets

Long-term assets that have no determinable useful economic life and are held in perpetuity by the Council, including parks and open spaces.

Creditors

Creditors are a kind of liability. They represent payments owed by the Council to another person or organisation for past events.

Debtors

Debtors are a kind of asset. They represent payments owed to the Council by another person or organisation for past events.

Defined Benefit Pension Scheme

A Defined Benefit Pension Scheme is a scheme where the benefits due to participants are predetermined based on earnings, length of service and age and are not directly dependant on the contributions paid or investment returns realised.

Depreciation

Depreciation is the measure of the cost of wearing out, consuming or reducing the useful life of the Council's assets. A charge is made against services for the value of the assets they have used during the year.

Entity

A body corporate, partnership, trust, unincorporated association, or statutory body that is delivering a service, or carrying on a trade or business, with or without a view to profit. It should have a separate legal personality and is legally required to prepare its own single-entity accounts.

Fair Value

The fair value of an asset or liability is the price at which it could be exchanged or settled in an arm's length transaction between two willing, knowledgeable parties.

Financial Instrument

A financial instrument is any contract, which gives rise to a financial asset or liability or an equity instrument in another entity, this includes cash, debtors, creditors, loans, borrowings and shares in other companies.

Infrastructure Assets

Non-current assets that cannot be transferred or sold, including roads, bridges and footpaths.

Inventories

Inventories are raw materials or goods which have been purchased but which have not yet been consumed in the delivery of Council services.

Liabilities

A liability represents a payment owed to another person or organisation including loans, outstanding invoices, provisions, contributions owed to third parties, etc. Short-term liabilities are due to be paid within the current year. Long-term liabilities are amounts that will not be paid until a later year.

Non-Distributable Costs

Non Distributable Costs represent costs that cannot be allocated to specific services and again, under the Best Value Accounting Code of Practice, are excluded from the total cost relating to service activity. Examples of Non Distributable Costs are charges for added pension years and early retirement.

Other Costs

This heading covers items of expenditure that cannot be accommodated in any of the other categories.

Provisions

A provision is a kind of liability. Where a payment for a liability is certain or very likely to occur but the exact amount and timing is not known, an amount must be put aside to meet the estimated future costs.

Revaluation / Impairment

Revaluations and impairments are adjustments to the value of an asset, either positively or negatively, to align the carrying value of an asset to an independent assessment of the asset's fair value.

Revenue Expenditure

Revenue expenditure includes the day-to-day costs of providing services including salaries and wages, property costs, transport costs and supplies and services. It also includes the costs of the repayment of loans used to finance capital expenditure.