

Unaudited Annual Accounts 2022/23

Report by David Gladwin, Acting Chief Financial Officer

Report for Decision

1 Recommendation

- 1.1 In accordance with The Local Authority Accounts (Scotland) Regulations 2014 set out in section 3.2 of this report and specifically sections 8 (9) and 8 (10), Audit Committee are asked to consider the unaudited annual accounts for 2022/23.

2 Purpose of Report / Executive Summary

- 2.1 The purpose of this report is to outline material changes in the value of net assets at 31st March 2023 and to facilitate Audit Committee consideration of the Council's unaudited annual accounts for 2022/23.
- 2.2 At the time of writing this report, final adjusted Lothian Pension Fund valuation figures are not yet available and a final review of the remainder of the accounts is taking place.

Date: 20 June 2023

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3 Background

- 3.1 The unaudited annual accounts for 2022/23 are in the final stages of preparation with work on track to complete the document in advance of the statutory deadline of 30th June. A draft copy of the accounts will be issued to Committee members in advance of the meeting and will be published online once signed after Audit Committee consideration.
- 3.2 The Local Authority Accounts (Scotland) Regulations 2014 sets out the requirements in respect of preparation, submission and scrutiny of unaudited accounts as follows, paragraphs 9 and 10 set out the requirements for Audit Committee to consider the unaudited annual accounts by 31st August 2023.

Published Accounts and Audit

- 8.—(1) A local authority must ensure that its Annual Accounts are prepared in accordance with these Regulations and, so far as compatible with these Regulations, in accordance with proper accounting practices.
- (2) The Annual Accounts must include, in addition to the financial statements required by proper accounting practices, the following statements, which are to be prepared in accordance with proper accounting practices and recognised guidance—
- (a) a management commentary;
 - (b) a statement of responsibilities;
 - (c) an annual governance statement;
 - (d) either—
 - (i) a remuneration report in the style set out in the Schedule to these Regulations, or
 - (ii) a statement that no remuneration report has been prepared because no persons have received remuneration that requires to be included in such a report.
- (3) The Annual Accounts must also include such of the following statements and disclosures as are relevant to the functions of the local authority—
- (a) a housing revenue account;
 - (b) a non-domestic rate account;
 - (c) a council tax account;
 - (d) any other statement relating to statutory funds which is required by any statutory provision.
- (4) The remuneration report referred to in paragraph (2)(d)(i) must contain the information set out in the Schedule to these Regulations.
- (5) The proper officer must ensure that—
- (a) the statement of responsibilities required by paragraph (2)(b) accurately reflects the proper officer's responsibilities; and
 - (b) the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.
- (6) Once the proper officer is satisfied as to the matters set out in paragraph (5), the proper officer must certify these matters by signing and dating the statement of responsibilities and the balance sheets contained within the Annual Accounts and then submit the Annual Accounts to the auditor.
- (7) The Annual Accounts must be submitted to the auditor no later than 30th June immediately following the financial year to which the Annual Accounts relate.
- (8) The local authority must publish a copy of the Annual Accounts submitted to the auditor, clearly identified as an unaudited version, on a website of the authority from the date they are submitted until the date on which the audited Annual Accounts are published in accordance with regulation 11.
- (9) A local authority or a committee of that authority whose remit includes audit or governance functions must meet to consider the unaudited Annual Accounts as submitted to the auditor.
- (10) The meeting referred to in paragraph (9) must be held no later than 31st August immediately following the financial year to which the Annual Accounts relate.

- 3.3 As required by paragraph 6 and 7 of the regulations the unaudited annual accounts will be signed by the Acting Chief Finance Officer on or before the 30th June 2023 and immediately submitted to Audit Scotland, the Council's appointed external auditors.
- 3.4 The regulations also provides for public inspection and this will run from 1st July 2023 to 21st July 2023.
- 3.5 Separately, on the Council agenda for 27th June 2023, are the year end financial monitoring reports which provide commentary on the in-year spend against budget and reserves positions for the following account areas:
- Financial Monitoring 2022-23 General Fund Revenue;
 - Housing Revenue Account Revenue and Capital Final Outturn 2022/23; and
 - General Services Capital Plan Outturn 2022/23.

4 Financial Statements Presentation

- 4.1 There continues to be refinements to the format and presentation of the annual accounts as part of a continuous improvement approach.
- 4.2 There have been no changes to the accounting code for 2022/23 that impact materially on the Council's accounts.

5 Long Term Assets

- 5.1 The total value of Long Term Assets increased during the year by £82 million reflecting further investment in the asset base and changes to the value of the Council's asset base.
- 5.2 For the School estate the Council's valuation methodology applies published Scottish Futures Trust (SFT) metrics intrinsic in the Learning Estate Investment Programme (LEIP) alongside evidence on the cost of school builds in Midlothian in recent years. In keeping with a period of higher inflation, valuation indices have risen.
- 5.3 In 2020/21 the Council amended the valuation basis for its shareholding in Lothian Buses Ltd to exclude any impact from the volatility of IAS 19 Pension valuation methodology. This basis of valuation remains in 2022/23. Excluding pension valuations, Lothian Buses Ltd accounts to 31st December 2022 show an increase in net assets of £20.415 million.
- 5.4 The Council have a 5.47% shareholding in Lothian Buses Ltd valued in the accounts at £5.758 million. This is an increase of £1.117 million from that in the 2021/22 accounts.
- 5.5 Council approved a capped level of investment in Midlothian Energy Limited of £8.6 million to support work on the initial Shawfair project. During 2022/23 there was a drawdown of £4.1 million and this is reflected in the increased value of the Council's 50% shareholding.

Lothian Pension Fund Valuation

- 5.6 The requirement of International Accounting Standard (IAS) 19 – Employee Benefits requires an annual actuarial valuation for accounting purposes of the council’s share of Lothian Pension Fund. There can be significant volatility between annual valuations.
- 5.7 The Council’s 2021/22 accounts showed a net carrying liability of £54.160 million. Measuring the position on the same basis at 31st March 2023 results in an asset of £188.463 million, a £242.623 million upwards revaluation. The most significant changes relate to:
- an increase in the net discount rate (discount rate net of CPI inflation) which increased the asset value (approximately £300 million); and
 - a loss (increase in obligations) resulting from applying the actual Pensions Increase Order for April 2023 of 10.1% to the benefits which reduces the asset value but by a significantly lower value (£38.685 million).
- 5.8 However, the accounting standard imposes a limit on the maximum amount of surplus which can be recognised on an employer’s balance sheet and this limit depends on factors unique to each employer. The limitation on valuation is based on the remaining future working lifetime of active staff and the present value of accruing service cost less value of cash contributions.
- 5.9 At the time of writing this report Hymans Robertson LLP, Lothian Pension Fund’s appointed actuary are working on this calculation for Midlothian. The results will be included in an amended version of the accounts before signing and a verbal update will be provided to Audit Committee.
- 5.10 Funding of pension obligations is determined by a full triennial valuation and the 2020 triennial valuation showed 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. Results of the 2023 valuation will be available later this year.

6 Current Assets

- 6.1 At 31st March 2022, the combined value of short-term investments and cash and cash equivalents shown in the Balance Sheet was £153.211 million. The comparable figure at 31st March 2023 is £115.776 million. The treasury strategy to cash back useable reserves covers £90.582 million of the balance at 31st March 2023. The remaining £25 million on deposit is a consequence of later than planned capital expenditure.
- 6.2 The remaining term of deposits as at 31st March determines the split between cash and cash equivalents (< 90 days) and short-term deposits (between 90 days and 1 year) on the Balance Sheet. At the 31st March 2023 £95.654 million of deposits are accounted for as the former and £20.122 million as the latter.

7 Long term Liabilities

- 7.1 As the Council's Public Private Partnership (PPP) and similar contracts move a year closer to expiry there is reduction of £3.692 million in the outstanding long-term liability.

8 Audit and Consideration of audited Accounts

- 8.1 Audit Scotland are well underway with the initial phases of their new audit engagement. Plans for the substantive phase of the audit over the summer months are in place with a clearance meeting planned for mid-September 2023.
- 8.2 Thereafter, the audited annual accounts are scheduled to be presented to Audit Committee on Tuesday 26th September 2023 together with the Audit Scotland 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 Audit Committee on 26th September 2023 must consider, in accordance with paragraphs 1 and 2, whether the accounts are ready for signature and if so the Leader, Chief Executive and the proper officer (S95 officer) will sign the accounts before submission to the Accounts Commission.

9 Report Implications

9.1 Resource

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

9.2 Digital

There are no IT implications arising from this report.

9.3 Risk

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

9.4 Ensuring Equalities

There are no equality implications arising directly from this report.

9.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Additional Report Implications

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

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

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

No consultation was required.

A.6 Impact on Performance and Outcomes

The decisions taken to balance the budget will have fundamental implications for service performance and outcomes. The Council's

Transformation Programme aims to minimise the impact on priority services.

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.