

Notice of Meeting and Agenda



Audit Committee

Venue: Council Chambers/Hybrid,
Midlothian House, Dalkeith, EH22 1DN

Date: Monday, 30 October 2023

Time: 14:00

Executive Director : Place

Contact:

Clerk Name: Democratic Services
Clerk Telephone:
Clerk Email: democratic.services@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

- | | | |
|------------|-----------------------------------------------|---------|
| 4.1 | Minute 7 March 2023 submitted for approval | 3 - 8 |
| 4.2 | Minute of 26 June 2023 submitted for approval | 9 - 20 |
| 4.3 | Action log | 21 - 22 |

5 Public Reports

- | | | |
|------------|------------------------------------------------------------------------------------------------------------------------------------|-----------|
| 5.1 | Annual Audit Report to Members and the Controller of Audit - year ended 31 March 2023, report by Audit Scotland, External Auditors | 23 - 52 |
| 5.2 | Annual Accounts for the year ended 31 March 2023 | 53 - 162 |
| 5.3 | Strategic Risk Profile Q1 2023/24, report by Chief Officer Place | 163 - 202 |
| 5.4 | Audit Committee Annual End of Term Report 2022/23, report by Chair of Audit Committee | 203 - 222 |
| 5.5 | Internal Audit Work to September 2023, report by Chief Internal Auditor | 223 - 244 |
| 5.6 | Council House Building Programme Progress Update 2023, report by Executive Director Place | 245 - 260 |

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Monday, 29 January 2024, 11am.

Minute of Meeting



Audit Committee

Date	Time	Venue
Tuesday 7 March 2023	11:00am	Council Chamber Midlothian House, Buccleuch Street, Dalkeith

Present:

Councillor Smaill (Chair)
Councillor McEwan
Councillor McKenzie
Councillor Milligan
Councillor Scott

In Attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Morag Barrow	Joint Director Health and Social Care
Fiona Robertson	Executive Director Children, Young People & Partnerships,
David Gladwin	Acting Chief Financial Officer
Duncan Stainbank	Chief Internal Auditor
Elaine Greaves	Principal Internal Auditor
Alan Turpie	Legal and Governance Manager / Monitoring Officer
Andrew Henderson	Democratic Services Officer

1. Welcome and Apologies for Absence

The Chair took the opportunity to welcome those in attendance to the meeting.

2. Order of Business

The order of business was as detailed in the agenda.

3. Declarations of interest

No declarations of interest were intimated at this stage of the proceedings.

4. Minutes of Previous Meetings

4.1 The minute of the meeting of 06 December 2022 was submitted and approved as correct record, moved by Councillor McEwan and seconded by Councillor Scott.

4.2 The Action log was submitted and noted.

With regard to action point 1, David Gladwin acknowledged that treasury management was an emerging issue for Environmental, social, and corporate governance (ESG) and that the sector was working through the details. With regard to a timescale, David Gladwin outlined that it would be beneficial to link the topic in with the general treasury update noting the implications of putting in a new strategy based on the ESG factors and anticipated that the sector would be able to have a discussion over the summer months. David Gladwin confirmed that with regard to the current procedure the 22/23 strategy outlined what could be done in terms of treasury management and confirmed that link provided advice in relation to all counterparties.

Members then took the opportunity to thank the Chief Executive for circulating the National Records of Scotland data.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Internal Audit Work to February 2023	Chief Internal Auditor
Outline of report and summary of discussion		
A brief summary of the report was provided with reference being made to recent work that had been conducted by internal audit with an overview of Internal Audit recommendations and findings being provided. A further overview of the executive summary in relation to the Audit assurance reports was also provided, in addition to details regarding the Chief Internal Auditors Opinion regarding the adequacy of control environment and governance arrangements within each audit area.		

In responding to questions, Duncan Stainbank clarified that with regard to unsigned Service Agreements, this was solely due to the lack of a formal signature and that service level agreements had been completed.

A discussion ensued in relation to the inclusion of Arms Length and External Organisations (ALEOs) and it was established that whilst Midlothian is a shareholder in external organisations such as Lothian Buses and has a joint account with Midlothian Energy Limited, that Midlothian Council did not have any ALEO's. It was agreed that clarification on this point would be sought after the meeting.

There was further discussion in relation to the procedure for grant application panels with members expressing concern regarding the fact that applicants were only required to leave the discussion when their application was being discussed, which Fiona Robertson outlined that there was a compact agreement regarding panels with third sector organisations that determined the requirements and that she was working with the Communities Team to assess how this could be taken forward and agreed to report back at a future meeting.

Decision

- a) Derek Oliver agreed to bring a report following up audit actions in relation to building maintenance services in future.
- b) Clarification to be provided clarifying information on ALEOs;
- c) Fiona Robertson to report back with regard to options in relation grant application scoring/assessment panels.
- d) Audit Committee noted the progress Internal Audit has made with activity in the Internal Audit Annual Plan 2022/23 to the end December 2022; and
- e) Confirmed it's satisfaction with the performance of the Internal Audit service provision.

Action

- a) Derek Oliver;
- b) Duncan Stainbank
- c) Fiona Robertson
- d) All to note
- e) All to note

Report No.	Report Title	Submitted by:
5.2	Counter Fraud Annual Plan 2023/24	Chief Internal Auditor
Outline of report and summary of discussion		
<p>In speaking to the report Duncan Stainbank provided a brief overview of the Counter Fraud Annual Plan 2023/24 making reference to the importance of having robust fraud prevention and investigation arrangements and the need to ensure preventative practices associated with the Counter Fraud Strategy as approved by Council in August 2020.</p> <p>A brief discussion ensued in relation to whistleblowing in which members took the opportunity to express concern in relation to the lack of feedback received by whistleblowers following the conclusion of investigations. Duncan Stainbank clarified that work was being undertaken to review the whistleblowing policy, acknowledging that East Lothian's policy included provision for feedback where</p>		

legally possible and where status of anonymity allowed. Duncan Stainbank confirmed that a draft would be ready by May.

In response to comments regarding major corporate fraud, Kevin Anderson confirmed that lessons had been learnt from the SEPA exercise and that resource had been added to address the regular occurrence of cyber-attacks. It was agreed that outcomes would be reported at a later date and that a session would be held as part of the future audit committee.

Decision

- a) Audit Committee agreed that a session on outcomes of the SEPA exercise would be brought to the next meeting of Audit Committee.
- b) Audit Committee approved the Counter Fraud Annual Plan as appended to the report.

Report No.	Report Title	Submitted by:
5.3	Internal Audit Charter Report by Chief Internal Auditor	Chief Internal Auditor
Outline of report and summary of discussion		
<p>Duncan Stainbank provided a brief overview of the internal audit charter as appended to the report and confirmed that the Midlothian Council's internal audit charter has been updated to conform to the public sector internal audit standards. Officers then took the opportunity to respond to points of clarity.</p> <p>A discussion ensued in relation to the audit mechanisms for the MIJB. Morag Barrow clarified that the MIJB follows both Council and NHS and that audits conducted by the IJB are contained within the functions of the IJB. Duncan Stainbank outlined that the remits for each are set out in the strategic directions and councils approved guidelines.</p>		
Decision		
<ul style="list-style-type: none"> a) Audit Committee noted the changes to the Internal Audit Charter outlined in section 4 of this report in conformance with Public Sector Internal Audit Standards; b) Approved the revised Internal Audit Charter shown at Appendix 1; and c) Noted that the Internal Audit Charter will be reviewed annually. 		

Report No.	Report Title	Submitted by:
5.4	Internal Audit Strategy and Annual Plan 2022/23 Report by Chief Internal Auditor	Chief Internal Auditor
Outline of report and summary of discussion		
<p>Duncan Stainbank provided an overview of the Counter Fraud Annual Plan 2023/24 as appended to the report and outlined that approval would allow for the</p>		

writing of the annual opinions due for submission later in the year. Duncan Stainbank then took the opportunity to respond to members questions.

With regard to the Internal Audit Teams' capacity to respond to requests, Duncan Stainbank confirmed 20 days for contingency and help desk tasks, and that if further resources are required a request can be submitted to the Chief Executive. Duncan Stainbank highlighted that, if required, this timescale could be reduced but that a report might be required outlining the possible removal of an item from the audit plan.

Decision

Audit Committee agreed;

- a) Noted the changes to the Internal Audit Strategy outlined in section 4 of this report;
- b) Noted the outline of the Internal Audit planning process outlined in section 5 of this report;
- c) Approved the Internal Audit Strategy (Appendix 1); and
- d) Approved the Internal Audit Annual Plan 2023/24 (Appendix 2).

6. Private Reports

None

7. Date of Next Meeting

Date of Next Meeting: Tuesday 25 April 2023 at 11am.

The meeting terminated at 11:46am

Minute of Meeting

Audit Committee
Monday 30 October 2023
Item 4.2



Audit Committee

Date	Time	Venue
Tuesday 26 June 2023	11:00am	Council Chamber/Hybrid

Present:

Councillor Smaill (Chair)
Councillor Bowen
Councillor McCall

In Attendance:

Grace Vickers	Chief Executive
Kevin Anderson	Executive Director Place
Morag Barrow	Joint Director Health and Social Care
Fiona Robertson	Executive Director Children, Young People & Partnerships
Derek Oliver	Chief Officer Place
David Gladwin	Acting Chief Financial Officer
Duncan Stainbank	Chief Internal Auditor
Elaine Greaves	Principal Internal Auditor
Willie Venters	Principal Solicitor
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies for Absence

The Chair welcomed Patricia Fraser from Audit Scotland and intimated apologies on behalf of Claire Gardiner, Audit Scotland, Councillor Milligan and Councillor McEwan.

2. Order of Business

The order of business was as detailed in the agenda and the chair indicated at the end of the meeting there will be a brief discussion on the Chair's report and the Chair for the next meeting of the Audit Committee on 26 September 2023.

3. Declarations of interest

No declarations of interest were intimated at this stage of the proceedings.

4. Minutes of Previous Meetings

4.1 The minute of the meeting of 7 March 2023 was submitted but it was noted that there were insufficient members present who had been in attendance at the previous meeting therefore it was agreed this would be submitted to the next meeting of the Audit Committee for approval.

4.2 The Action log was submitted and noted.

1. Responsible Treasury Management: ongoing

2. **Internal Audit Mid-Term Performance Report 2022/23:** The report will be submitted to BTSG then next Audit.

3. **Internal Audit Work to February 2023:** Clarification on ALEOs – Mr Stainbank provided an update on the ALEOs and advised that the procedures would be amended so they are clear what the definition of an ALEO is going forward.

In responding to a question from the Chair regarding Midlothian Energy and that they do not have a Councillors on their governing body, Mr Stainbank confirmed that the governance arrangements between the Council and the ALEO would be within the scope of the Internal Audit arrangements and confirmed there would be report on Midlothian Energy within the appropriate cycle of the internal audit plan.

Mr Anderson, in responding to a comment from the Chair with regards to a report on Midlothian Energy confirmed that the annual business plan would be presented to Council and then if required submitted to the Audit committee.

4. **Internal Audit Work to February 2023:** Ms Robertson advised that they do double check in terms of membership of the panel and at the last meeting no-one declared an interest. Ms Robertson also provided an update on the external recruitment process previously used which worked well and that they will be reviewing the membership of the panel going forward and confirmed there will be proposals to eliminate conflicts of interest.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Counter Fraud Annual Report 2022/23	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of the 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 in liaison with other services over the past year as part of the arrangements to tackling fraud at the Council.</p> <p>The Chief Internal Auditor, Duncan Stainbank in presenting this report highlighted the main sections contained within the report and highlighted that as a result of counter fraud activity a total savings value of £360,070 has been identified during 2022/23 and that the total savings from the NFI 2020/21 exercise were estimated at £718,557 and these outcomes are detailed in the appendices attached to the report.</p> <p>Councillor McCall commented on the interesting report and highlighted the good outcome in 5.2 and the collaborative working between the housing team and audit team.</p> <p>In responding to a question raised by the Chair, Ms Grieves advised that it was unsure if these properties were involved in sub-letting but did confirm that in the past it has been a mixture of sub-letting and abandoned houses.</p> <p>Mr Stainbank also provided an update on the work regarding single occupancy and the processes in place to match this with electoral register to confirm who is living in the household and the recovery funds where possible.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none">a) Considered the counter fraud work undertaken during the year to 31 March 2023 in support of the Council's counter fraud policy and strategy; andb) Noted the outcomes of the counter fraud activity 2022/23.		

Report No.	Report Title	Submitted by:
5.2	Internal Audit Work to May 2023	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.</p>		

The Internal Audit Annual Plan 2022/23 was approved by the Audit Committee on 14 March 2022. Internal Audit has carried out work associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

The Chief Internal Auditor, Duncan Stainbank in presenting this report advised that internal audit issued the final assurance reports on Care at Home, Construction projects and the Mental Health Services and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to the report.

The Joint Director Health and Social Care, Morag Barrow in responding to a question raised by Councillor McCall with regards to the overpayments paid to two providers advised that after going to a new model of provisioning care at home the two providers had committed to provide x amount of hours for the year but struggled to do that and because it was a different model it just took a bit longer to get the money back but confirmed that this had all been recovered now. Ms Barrow also advised that there was no mistake it was just that the length of time it took for the process to get the money back.

Mr Stainbank also advised that at the time of the report writing there was concerns about getting the money back but also confirmed the money is now all paid back.

In responding to a follow up question from the Chair regarding this happening again, Ms Barrow advised there has always been a process in place and there are weekly monitoring meetings and could see no reason which this would reoccur but if it did it would be picked up immediately.

The Chair highlighted within Construction there were a number of areas which were weak and sought clarity on this, in responding Mr Stainbank advised that framework is in place but some of the elements of the procedures and processes had changed and in 1 or 2 occasions procedures were not followed or items not filled in but advised that he has no concerns over the overall framework.

Mr Stainbank further confirmed that all the processes are in place to resolve those issues with the recommendations which are to be implemented by September this year and advised that they will be making changes to the reporting to make that link between the assurance statement given and the work that has been undertaken in the audit clearer.

Mr Stainbank, in responding to the request from the Chair for a further updated report confirmed that he would bring back an updated report on these recommendations in December 2023.

Decision

The Audit Committee:

- a) Considered the Executive Summaries of the final Internal Audit assurance reports issued associated with the delivery of the approved Internal Audit Annual Plan 2022/23.

b)	Noted the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; and
c)	Acknowledged the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.
d)	Agreed that an updated report would be provided to the Audit Committee at the December meeting.
Action	
Chief Internal Auditor	

Report No.	Report Title	Submitted by:
5.3	Internal Audit Annual Assurance Report 2022/23	Chief Internal Auditor
Outline of report and summary of discussion		
<p>The purpose of this report was to present to the Audit Committee the Internal Audit Annual Assurance Report for the year to 31 March 2023 which includes the Chief Internal Auditor's independent assurance opinion on the adequacy of Midlothian Council's overall control environment.</p> <p>The Public Sector Internal Audit Standards (PSIAS) require that the chief audit executive, the Council's Chief Internal Auditor, provides an annual internal audit opinion and report on the adequacy and effectiveness of the Council's governance, risk management and internal controls to support the preparation of the Annual Governance Statement. This is in support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance.</p> <p>To meet the requirements of the PSIAS, the Internal Audit Annual Assurance Report 2022/23 (Appendix 1) includes the Chief Internal Auditor's annual opinion, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.</p> <p>The Chief Internal Auditor, Duncan Stainbank presented this report highlighting the key areas of concern which included the level of resourcing for procurement and compliance with procurement processes and procedures across the Council.</p> <p>The Chair highlighted the work with Henderson Loggie as an outsourced provider and the constraints within the audit team and if these two are related due to the council not having a big enough audit team, in responding Mr Stainbank advised on the gap in resources between the previous arrangement in place with Scottish Borders and him coming into post and that Henderson Loggie had been arranged to assist with the completion of the 2022/23 Internal Audit Plan. In responding to a follow up question from the Chair, Mr Stainbank advised the funds were in the budget for 2022/23 and this was carried forward to this year to cover the costs this year.</p>		

Mr Stainbank in responding to a further question provided an update on the 3 audits which had been removed from the 2022/23 Audit plan and confirmed that school budget will be covered in this year's audit plan.

The Chair enquired as to there being any risks with destroying audit files and Mr Stainbank advised there had been a backlog but confirmed there should be no risk as the audit files are destroyed following the retention policy

Decision

The Audit Committee:

- (a) Considered the Internal Audit Annual Assurance Report 2022/23 (Appendix 1), and assurances contained therein; and
- (b) Provided any commentary thereon, including any further actions required by Management.

Report No.	Report Title	Submitted by:
5.4	Draft Annual Governance Statement 2022/23	Chief Executive
Outline of report and summary of discussion		
<p>The purpose of this report was to propose that the Audit Committee considers and approves the draft Annual Governance Statement that will be published in the Council's Statement of Accounts 2022/23.</p> <p>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, and used economically, efficiently and effectively. The Council's Local Code of Corporate Governance that was approved by Council on 23 March 2021 was used to assist with the annual assurance process 2022/23.</p> <p>The draft Annual Governance Statement 2022/23, which is appended to this report as Appendix 1 for consideration, is the output from the annual assurance process and review against the updated Local Code.</p> <p>The Chief Executive, Grace Vickers presented this report outlining the main sections contained within the Annual Governance Statement and highlighted the key areas for improvement and the systems in place to regularly review and improve governance arrangements and the system of internal control.</p> <p>Mr Gladwin confirmed that this statement will be included in the Council's Statements of Accounts 2022/23.</p>		
Decision		
<p>The Audit Committee:</p> <ul style="list-style-type: none"> a) Considered the details of the draft Annual Governance Statement 2022/23 at Appendix 1 to ensure it reflects the risk environment and governance in place to achieve objectives, and acknowledge the actions identified by Management to improve internal controls and governance arrangements; and 		

- b) Approved that it be published in the Council's Statement of Accounts 2022/23, 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.

Action

Chief Executive/Leader of the Council

Report No.	Report Title	Submitted by:
5.5	Unaudited Annual Accounts 2022/23	Chief Finance Officer (Acting)
Outline of report and summary of discussion		
<p>The purpose of this report was 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.</p> <p>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.</p> <p>The Chief Finance Officer (Acting), David Gladwin provided an overview of the timeline for the Annual Accounts and highlighted the main sections as contained within the report.</p> <p>The Chair highlighted the valuation changes to houses and the number of council houses build dropped but work in progress and asked for assurance on the effectiveness of the social housing programme and getting value from money. In responding Mr Anderson confirmed the average unit cost has increased and provided an update advising that the annual report would be submitted to Council, and this could also be shared with the Audit Committee.</p> <p>Councillor McCall raised a question with regards to the increase in non-domestic rates income and Mr Gladwin provided a brief update on how the Scottish Government distributes the money and that it is not related to businesses in Midlothian. There followed further discussion regarding the revaluation and the pressures this brought to Midlothian and Mr Gladwin provided an explanation on the piece of work still ongoing with this and Mr Gladwin confirmed that he would send information to Elected Members on the figures for the non-domestic rates.</p> <p>Mr Oliver in a response to Councillor McCall's question provided an update on the number of new businesses for 2020/21 - 83; 2021/22 - 124 and for 22/23 -121 new businesses.</p> <p>Mr Gladwin confirmed that the financial statements will not go to Council until this the Audit Committee approve the draft audited financial statements later in the summer and confirmed that he would circulate a copy of the accounts which he signs and submits to Audit Scotland, and they will also be published on the Council's website.</p>		

The Chair thanked Mr Gladwin and his team for all the work that has gone into this document.

Decision

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 considered the unaudited annual accounts for 2022/23.

Report No.	Report Title	Submitted by:
5.6	Annual Treasury Management Report 2022/23	Chief Finance Officer (Acting)
Outline of report and summary of discussion		
<p>The purpose of the report was to inform members of the Audit Committee of the Treasury Management activity undertaken in 2022/23 and the year-end position.</p> <p>The Chief Finance Officer (Acting), David Gladwin advised that this would be presented to Council on 27 June 2023, and he would update them on any discussions from today's meeting, thereafter Mr Gladwin highlighted the main sections as contained within the report.</p> <p>In responding to questions raised by Councillor McCall regarding the significant risks to that central forecast and an explanation on the useable reserves of £90.583 m, Mr Gladwin provided an explanation on the risk on borrowing decisions and interest rates to support capital projects. Mr Gladwin further provided an explanation on the useable reserves of £90m which are held in the general fund, housing revenue account and the capital fund and the decision taken as part of the treasury strategy is to place those on short term deposit and will get some interest on them but also keep them readily available should they be required.</p> <p>The Chair enquired if there was any indication when the VAT money will be paid and Mr Gladwin advised we do not have the money in the bank, but it has been accounted for in 2022/23 and we do have the certainty that we will receive it, the first claim should be soon and the second one may take a bit longer.</p> <p>Councillor McCall raised a further question with regards to the overall Midlothian's loans fund rate of 2.41% and Mr Gladwin advised that this is a calculation of all the borrowing and investment costs over the year and Midlothian has been one of the lowest in Scotland for some time.</p>		
Decision		
<p>The Audit Committee is invited to consider this report before the final report is resented to Council. Committee should note that the proposed recommendation to Council is that it note the Annual Treasury Management Report 2022/23.</p>		

Report No.	Report Title	Submitted by:
5.7	Treasury Management and Investment Strategy 2023/24 – Credit Risk Update,	Chief Finance Officer (Acting)
Outline of report and summary of discussion		
<p>This paper has been prepared to provide an update to Audit Committee members on the current market position regarding credit risk on deposits, the Council's exposure to credit risk, and how this risk is mitigated through the Council's assessment of counterparty creditworthiness in the approved TMIS.</p> <p>Chief Finance Officer (Acting), Mr Gladwin advised that at the request of members at the Council meeting on 21 March 2023, he has prepared a report to update members on the current market position regarding credit risk following the collapse of Silicon Valley Bank and Credit Suisse and failure of Signature bank and provided a brief outline of the contents of the report.</p> <p>The Chair referred to the table on P99 and Mr Gladwin advised that Link are clear that all the entities in the table are assessed in accordance with their credit criteria and they are well within the safe approach to depositing money. Mr Gladwin then responded to a further question with regards to borrowing with local authorities and provided an explanation on the reasons why this has changed.</p> <p>Councillor Bowen raised a question with regards to depositing money and Mr Gladwin provided an explanation on how the decisions are made using external advisors, the treasury strategy and their own internal process and the decision is made by him as the Section 95 Officer within an approved strategy and methodology.</p>		
Decision		
The Audit Committee noted the content of this report.		

Report No.	Report Title	Submitted by:
5.8	Midlothian Council Annual Audit Plan	Executive Director Place
Outline of report and summary of discussion		
<p>This document summarises the work plan for our 2022/23 external audit of Midlothian Council. The main elements of our work include:</p> <ul style="list-style-type: none"> • evaluation of the key controls within the main accounting systems • an audit of the annual accounts, and provision of an Independent Auditor's Report • audit opinions on the financial statements and other statutory information published within the Annual Accounts including the Management Commentary, Annual Governance Statement and the Remuneration Report 		

- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.
- consideration of Best Value arrangements
- providing assurance on the Housing Benefit Subsidy Claim, Non-Domestic Rates Return and the Whole of Government Accounts (WGA) return.
- reviewing the council's arrangements for preparing and publishing statutory performance information.

Senior Audit Manager, Patricia Fraser presented the Annual Audit plan outlining some of the key points contained within the report and highlighted which included materiality levels and a summary of the nature of the risk – detailed in Exhibit 1 and 2; the wider scope risks -detailed in Exhibit 3 and highlighted that the fee has increased in 2022/23 and noted the concerns around the increased cost and provided a brief summary of the reasons for this increase.

In responding to a question raised by the Chair, Ms Fraser confirmed that the additional work is around outcomes, leadership, and environmental activities and some of this work has already been carried out.

Decision

The Audit Committee noted the content of this report

Report No.	Report Title	Submitted by:
5.9	Risk Management Update – Strategic Risk Profile Q4 2022/23	Chief Officer Place
Outline of report and summary of discussion		
<p>The purpose of this report was to provide Audit Committee with:</p> <ul style="list-style-type: none"> i. An update on the risk responses Midlothian Council has implemented during Q4 2022/23 to respond to the current risk climate. ii. Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate. iii. The risk evaluation of current strategic risks and opportunities for the Council. <p>Chief Officer Place, Derek Oliver presented this report highlighting main sections contained within the report.</p> <p>The Chair raised cyber risk and Mr Oliver advised this was included in the risk profile and discussions had taken place.</p>		
Decision		
Audit Committee noted the current risk landscape and organisational response to the most significant risks in Quarter 4 (Q4) 2022/23 (1 January to 31 March 2023).		

6. Private Reports

None

7. Date of Next Meeting

Date of Next Meeting: Tuesday 26 Sept at 11am.

The Chair advised that as there was no independent Chair the arrangement was to share the Chair around the groups and that he was initially to take up the post of Chair until July 2023, thereafter Councillor Milligan would take up the Chair then ultimately Councillor McEwan. However, as the Chairman's report was not completed and in discussion with officers, the suggestion was that Councillor Smail would continue in the position of chair for the next meeting.

This was unanimously agreed.

The meeting terminated at 12.14 pm.

Action Log

Audit Committee
Monday 30 October 2023
Item No: 4.3



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	Responsible treasury management	06/12/2022	Session with members to be organised with regard to Responsible treasury management/ethical issues.	Acting Chief Financial Officer	Ongoing	Carry forward, paper coming forward regarding CSG and ethical depositing coming later in the year.
2	Internal Audit Mid-Term Performance Report 2022/23	07/02/2023	Derek Oliver to submit a report to Audit Committee following up on audit actions for Building Maintenance Services.	Chief Officer Place	September 2023	Report will be presented to BTSG then submitted to the next Audit Committee
3	Internal Audit Work to February 2023	07/03/2023	Clarification to be provided via a post meeting comment clarifying information on ALEOs;	Chief Internal Auditor	25/04/2023	Recommended for closure: Mr Stainbank clarified that the Council has one operating ALEO and one non-operating and confirmed that the procedure would be amended so they are clear on the definition of ALEO.
4	Internal Audit Work to February 2023	07/03/2023	Fiona Robertson to report back with regard to options for panels in relation grant application panels.	Executive Director Children, Young People & Partnerships		Recommended for closure: Ms Robertson provided an update on the membership of the panel and that there

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
						will be proposals brought forward to eliminate any conflicts of interest.
5	Internal Audit work to May 2023	26/06/2023	An updated report would be submitted to the Audit Committee in December 2023	Mr Stainbank	December 2023	Recommended for closure: Report on the agenda covering Internal Audit Work to September 2023.
6	Unaudited Accounts 2022/23	16/06/2023	Mr Gladwin confirmed that he would send information to Elected Members on the figures for the non-domestic rates	David Gladwin	September 2023	Recommended for closure: Information circulated to Elected Members on 23 August 2023

Midlothian Council Audit Committee

30 October 2023

Midlothian Council Audit of 2022/23 annual accounts

Independent auditor's report

1. Our audit work on the 2022/23 annual accounts is now substantially complete. Subject to the receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 30 October 2023 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Audit Committee's consideration our draft significant findings and key audit matters identified in respect of the annual accounts.

3. The full annual audit report, including our conclusions on the wider scope that frame public audit, will be issued in final form after the annual accounts have been certified by the appointed auditor.

Unadjusted misstatements

4. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected.

5. We identified two unadjusted misstatements to be corrected. If corrected, this would reduce net expenditure by £0.631 million and increase the net assets in the statement of financial position by the same amount.

Fraud, subsequent events and compliance with laws and regulations

6. In presenting this report to the Audit Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

7. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

8. A draft letter of representation is attached at [Appendix B](#). This should be signed and returned to us by the Chief Financial Officer (Section 95 Officer) with the signed annual accounts prior to the independent auditor's report being certified.

Appendix A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Midlothian Council and the Accounts Commission

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Midlothian Council and its group for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement, the council-only Housing Revenue Account, the Council Tax Income Account, and the Non-Domestic Rate Account and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2023 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 5 June 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

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

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the ability of

the council and its group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the council and its group. However, I report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Chief Financial Officer and the audit committee for the financial statements

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

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the ability of the council and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the council and its group.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the council and its group;
- inquiring of the Chief Financial Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the council and its group;
- inquiring of the Chief Financial Officer concerning the policies and procedures of the councils and its group regarding compliance with the applicable legal and regulatory framework;

- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

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

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

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

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

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

[Signature]

Claire Gardiner CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Appendix B: Letter of Representation (ISA 580)

Claire Gardiner, Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Dear Claire

Midlothian Council Annual Accounts 2022/23

1. This representation letter is provided about your audit of the annual accounts of Midlothian Council and its group (hereafter referred to as Midlothian Council) for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.

2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the Chief Executive and Corporate Management Team, the following representations given to you in connection with your audit of Midlothian Council's annual accounts for the year ended 31 March 2023.

General

3. Midlothian Council and I have fulfilled our statutory responsibilities for the preparation of the 2022/23 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Midlothian Council have been recorded in the accounting records and are properly reflected in the financial statements.

4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (2022/23 accounting code), and the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.

6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of Midlothian Council and its Group at 31 March 2023 and the transactions for 2022/23.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2022/23 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All

accounting policies applied are appropriate to Midlothian Council's circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Midlothian Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Midlothian Council's ability to continue as a going concern.

Assets

10. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2023 does not differ materially from that which would be determined if a revaluation had been carried out at that date.

11. I carried out an assessment at 31 March 2023 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.

12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2023.

13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

9. All liabilities at 31 March 2023 of which I am aware have been recognised in the annual accounts.

10. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2023 of which I am aware where the conditions specified in the 2022/23 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2023. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

11. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2023 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

12. The accrual recognised in the financial statements for holiday untaken by 31 March 2023 has been estimated on a reasonable basis.

13. The pension assumptions made by the actuary in the IAS 19 report for Midlothian Council have been reviewed and I confirm that they are consistent with management's own view.

14. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

15. There are no significant contingent liabilities, other than those disclosed in Note 36 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the 2022/23 accounting code and IAS 37.

Fraud

16. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

17. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

18. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2022/23 accounting code. I have made available to you the identity of all Midlothian Council's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

19. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

20. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

21. I confirm that Midlothian Council has undertaken a review of the system of internal control during 2022/23 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

22. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate

governance arrangements or issues identified, since 31 March 2023, which require to be reflected.

Group Accounts

23. I have identified all the other entities in which Midlothian Council has a material interest and have classified and accounted for them in accordance with the 2022/23 accounting code. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

Common Good Fund

24. I confirm, to the best of my ability, that all material common good assets have been identified and correctly accounted for within the common good financial statements and where appropriate, common good assets in use by the Council have been assessed and accounted for in line with IAS 17.

Events Subsequent to the Date of the Balance Sheet

25. All events subsequent to 31 March 2023 for which the 2022/23 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Chief Financial Officer (Section 95 Officer)

Midlothian Council

2022/23 Annual Audit Report



Prepared for the Members of Midlothian Council and the Controller of Audit
October 2023

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Key messages

2022/23 annual accounts

- 1** Audit opinions on the annual accounts of the council and its group are unmodified.
- 2** As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Audit Committee.
- 3** Management made adjustments of £16.1 million to the annual accounts. The most significant adjustments related to the re-measurement of the net defined benefit for the unfunded pension obligations of £7.8 million and the reclassification of £5.9 million debtors and creditors balances.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Midlothian Council (the Council). The scope of the audit was set out in an annual audit plan presented to the June 2023 meeting of the Audit Committee. Audit appointment from 2022/23.

Audit appointment from 2022/23

2. I, Claire Gardiner, have been appointed by the Accounts Commission as auditor of the Council for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) which was introduced for financial years commencing on or after 1 April 2022.

3. My team and I would like to thank councillors, audit committee members, senior management, and other staff, particularly those in finance, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

4. The Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

5. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

6. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management of the Council from its responsibility to address the issues we raise and to maintain adequate systems of control.

7. This report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor Independence

8. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £273,550 as set out in

our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

1. Audit of 2022/23 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual accounts of the council and its group are unmodified.

As part of our audit, we carried out work on the key risks identified in our Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Audit Committee.

Management made adjustments of £16.1 million to the annual accounts. The most significant adjustments related to the re-measurement of the net defined benefit for the unfunded pension obligations of £7.8 million and the reclassification of £5.9 million debtors and creditors balances.

Audit opinions on the annual accounts are unmodified

9. The council approved the annual accounts for the Council and its group for the year ended 31 March 2023 on 30 October 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been

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

Overall materiality was assessed as £7.6 million

10. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

11. Our initial assessment of materiality for the Council and its group, was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Council and Group
Overall materiality	£7.6 million
Performance materiality	£4.6 million
Reporting threshold	£0.25 million
Source: Audit Scotland	

12. The overall materiality threshold for the audit of the annual accounts of the Council was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

13. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 60% of overall materiality, reflecting our risk assessment which was informed by the level of errors in prior years and the control environment in place at the Council.

14. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

15. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to the council, including our view about the qualitative aspects of the body's accounting practices.

16. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements. Significant findings and key audit matters are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
<p>1. Restricting the value of pension asset</p> <p>For the first time, the unaudited accounts included a pension asset rather than a liability. This amounted to £188 million and was calculated by the council's actuary.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. The asset ceiling is defined as the present value of any economic benefits available in the form of refunds from the pension fund or reductions in future contributions to the fund.</p> <p>Further guidance on calculating the asset ceiling is provided in IFRIC 14. It refers to the impact of a 'minimum funding requirement' which stipulates a minimum amount of contributions that must be paid over a given period. The existence of a minimum funding requirement limits the ability of a body to reduce future contributions.</p> <p>Where there is a minimum funding requirement for contributions relating to future service, IFRIC 14 explains that the asset ceiling is the present value of the future service cost less the present value of the minimum funding requirement contributions.</p> <p>Where actuaries report that the present value of the minimum funding requirement contributions exceeds the future service cost, IFRIC 14 advises that no asset should be recognised.</p>	<p>We reviewed the actuary's assumptions and the Council's assessment of the actuary's assumptions and calculation in conjunction with IAS 19 and the application of IFRIC 14.</p> <p>The council included additional disclosures in the audited annual accounts to clearly show the effect of the asset ceiling.</p> <p>The annual accounts were adjusted to reflect a pension asset of zero for the Council's funded obligations, and a pension liability of £7.8 million for its unfunded obligations, for which the IFRIC 14 calculation does not apply.</p> <p>We concluded that, for 2022/23, the Council's approach to recognising a pension asset and applying an asset ceiling in the accounts was appropriate.</p>

Issue	Resolution
<p>The council applied an asset ceiling which restricted the pension asset to a nil balance in the balance sheet as at 31 March 2023.</p> <p>As part of our audit work we identified that the IFRIC 14 calculation did not cover the unfunded pension liability and therefore where the pension asset was restricted to zero the unfunded pension obligation should be netted off against the restricted balance and included as a liability in the financial statements.</p>	
<p>2. Reinforced Autoclaved Aerated Concrete in council buildings</p> <p>Reinforced autoclaved aerated concrete (RAAC) is a lightweight construction material that was used in the construction of some public buildings like schools and hospitals between the 1950s and 1990s. It was used mostly in flat roofing, but also in some pitched roofs, floors and walls.</p> <p>On 31 August 2023 the UK Department for Education (DfE) announced that any space or area in schools, colleges or nurseries in England, with confirmed RAAC should no longer be open without "mitigations" being put in place.</p> <p>During 2022/23, the Council reviewed of buildings across the school estate and did not identify any RAAC in the surveyed schools. Further surveys are planned on the remaining buildings within the Council's estate.</p>	<p>We are satisfied that the Council has taken appropriate action to address the risk of RAAC within their estate.</p> <p>As no RAAC has been identified we are satisfied that there is no requirement for a post balance sheet event relating to liabilities in relation to remedial works.</p>
<p>3. Remuneration report disclosures</p> <p>The audit of the Remuneration Report identified a number of errors and other disclosure changes that were required to ensure the reports were fully compliant with applicable guidance. These included:</p> <ul style="list-style-type: none"> the remuneration table did not include a senior councillor who commenced this role in March 2023 there were minor errors in the pension movements for two employees the disclosures around pay bands had been calculated incorrectly in regard to starters and leavers. The bands should be based on actual salaries of all starters and leavers but the whole year equivalent had been used. 	<p>Management have reviewed the disclosures within the Remuneration Report and have updated the information.</p> <p>We are satisfied that the revised Remuneration Report fulfils the disclosure requirements of applicable guidance.</p>

Issue	Resolution
<p>4. Disclosures in the notes to the accounts</p> <p>The notes to the accounts help provide contextual information and detail which will help the reader understand the primary statements. Our audit work identified some areas where the classification of transactions or balances was incorrectly disclosed within the notes to the accounts.</p> <ul style="list-style-type: none"> • Within short term deposits at 31 March 2022, £50 million was reclassified as cash and cash equivalents. The balance sheet was also revised to correct the misclassification. • Within Group investments £5.6 million was reclassified as the Group share of net assets of associates and joint ventures. • Within the short term debtors note there was £11.2 million of classification movements between other trade debtors, central government bodies and council tax debtors. • Within income £3.2 million was reclassified from fees and charges income to investment income. • Within non-current assets £0.7 million was incorrectly classified as assets under construction and land in operation. 	<p>We acknowledge that only one of the misclassifications identified impacted on the figures on the face of the primary financial statements. We are satisfied that management have addressed all significant misclassifications within the notes to the accounts in year.</p> <p>The Council should ensure going forward that control accounts such as trade debtors are reviewed to ensure balances with central government and other public sector bodies are classified appropriately at the year-end.</p> <p style="text-align: right;">Recommendation 1</p>

Source: Audit Scotland

Our audit work responded to the risks of material misstatement we identified in the annual accounts

17. We have obtained audit assurances over the identified significant risks of material misstatement in the annual accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Significant risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
1. Risk of material misstatement due to fraud	Owing to the nature of this risk, assurances from	<ul style="list-style-type: none"> • We assessed the design and implementation of controls over journal entry

Audit risk	Assurance procedure	Results and conclusions
<p>caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>management are not applicable in this instance</p>	<p>processing. Exhibit 5 identifies an opportunity to strengthen the controls over journals.</p> <ul style="list-style-type: none"> • Our testing of journals, year-end transactions, accruals and prepayments did not identify any incidents of management override of controls. • We did not identify any unusual journal activity. • Our assessment of the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements did not highlight any weaknesses. • The methods and assumptions used to prepare accounting estimates were confirmed to be consistent with prior-years. • As a result of the above work we are satisfied that there is no material misstatement arising from this risk.
<p>2. Estimation in the valuation of other land and buildings</p> <p>Midlothian Council hold land and buildings (non-housing) with a NBV of £526 million as at 31 March 2022.</p> <p>There is a significant degree of subjectivity and complexity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and changes in these can result in material changes to</p>	<p>Council procedures and controls around valuation and accounting.</p>	<p>We did not identify any issues with the information provided to the valuer.</p> <p>Our review of the council's valuation team's work, and the external valuer, confirmed the appropriateness of the methodology and assumptions used. We did not identify any non-compliance with RICS guidance.</p> <p>We found that management have an appropriate level of involvement and oversight of</p>

Audit risk	Assurance procedure	Results and conclusions
<p>valuations. Material errors were also identified in the prior year valuation process by the prior year auditor.</p> <p>The 2022/23 revaluation exercise is planned to cover a significant proportion of the estate.</p> <p>Due to the inherent complexity and subjectivity risks regarding land and buildings' valuations and material errors found in the prior year, a significant risk of material misstatement in the 2022/23 valuations has been identified.</p>		<p>the valuation process. We concluded that management's assessment that land and buildings not revalued in 2022/23 are not materially misstated, to be reasonable, and found assumptions made to be appropriate.</p> <p>We found that appropriate disclosures have been made regarding the assumptions in relation to the valuation of land and buildings.</p>

Source: 2022/23 Midlothian Council Annual Audit Plan

18. In addition, we identified "areas of audit focus" in our 2022/23 Annual Audit Plan where we considered there to be risks of material misstatement to the financial statements. The results of our audit procedures and conclusions are set out in [Exhibit 4](#).

Exhibit 4

Identified areas of audit focus

Audit risk	Results and conclusion
<p>Valuation of pension liability</p> <p>The council is an admitted body of Lothian Pension Fund and recognised a net pension liability of £54 million as at 31 March 2022. The liability requires the use of an actuarial methodology based on a range of assumptions including financial and demographic assumptions. The subjectivity around these assumptions gives rise to a risk of material misstatements in the financial statements.</p> <p>We will assess the scope, independence and competence of the professionals engaged in providing estimates for pensions and review appropriateness of actuarial assumptions and</p>	<p>We are satisfied that the pension liability is correctly recognised on the balance sheet at 31 March 2023 and has been accounted for and disclosed correctly in line with International Accounting Standard (IAS) 19 Retirement benefits.</p> <p>We use an auditor's expert to inform our review of the assumptions used in calculating this estimate and management's judgements. We concluded the assumptions are appropriate and within a range which we consider to be acceptable.</p> <p>We are also satisfied the controls in place over the provision of information to the actuary are appropriate.</p>

Audit risk	Results and conclusion
<p>results including comparison with other councils. We will establish officer's arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by Midlothian Council.</p>	
<p>Teachers' payroll</p> <p>Two pay awards have been granted in 2022/23. The Council is progressing implementing the awards but work in this area is incomplete and calculations for supply teachers can be complex. We will monitor progress in implementing teachers pay awards and test controls in the payroll system to ensure staff costs are complete, valid, and accurate.</p>	<p>We reviewed the design and implementation of controls over changes to pay which includes pay awards. We concluded that the controls over changes were designed appropriately.</p> <p>We conducted analytical procedures regarding the pay award in year comparing the actual amounts charged as expenditure to our expectation. We identified a variance which indicates that national insurance and pension costs relating to the 2021/22 pay increase were not accrued in the prior year. Accounting standards require the adjustment of material prior period errors only. We are satisfied that this would not be material and therefore no prior period adjustment has been made.</p>
<p>Financial controls cash and bank</p> <p>Material errors in the unaudited cash and bank figures were identified by the previous external auditors.</p> <p>These were identified as relating to the failure of bank reconciliation controls. We will follow up agreed actions and perform a full system review in this area in 2023.</p>	<p>Bank reconciliations were conducted for each month in 2022/23. In addition to this a year end reconciliation was conducted with no issues arising.</p> <p>We are satisfied that the balance reported at the year end is not materially misstated.</p>

Source: 2022/23 Midlothian Council Annual Audit Plan

Identified misstatements of £16.1 million were adjusted in the annual audited accounts

19. Total adjustments of £16.1 million were made to the annual audited accounts. The most significant adjustments related to the re-measurement of the net defined benefit for the unfunded element of pension contributions of £7.8 million and the reclassification of £5.9 million debtors and creditors balances.

20. Adjustments made in the audited accounts reduced the total comprehensive income and expenditure surplus by £2.9 million and reduced net assets in the balance sheet by £2.9 million.

21. We identified two misstatements which were not corrected by management in the audited accounts. Management considered the size, nature and circumstances leading to all uncorrected misstatements, individually and in aggregate, and concluded that these were not material.

22. The unaudited annual accounts were received in line with our agreed audit timetable on 30 June 2023. The working papers provided with the unaudited accounts were of a good standard and finance and other council staff provided good support to the audit team during the audit.

23. Covid-19 has had a considerable impact on the delivery of audits and we are working to deliver timely audits while maintaining quality. In order to preserve the quality of our work in year the audit was delayed against our planned timetable with the accounts being signed on 30 October 2023. This allowed the statutory deadline for publication to be met.

Financial systems of internal control

24. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach. We did not identify any issues with the design of the controls which would increase the risk of a material misstatement in the financial statements. However, we identified three areas where controls could be improved:

Exhibit 5

Key findings from review of key controls

Audit finding	Additional audit procedures
<p>1. Journals</p> <p>The council's financial ledger is the system for recording all transactions and preparing the financial statements. Journal entries are how the council's financial ledger is manually updated. We conducted controls testing over this area and identified the following issues:</p> <ul style="list-style-type: none"> To minimise the risk of error and fraud we would expect each journal entry to be prepared and authorised by different members of staff. This control is not in operation for a small number of staff within the finance team. The ability of officers to approve their own journals increases the risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger. Access to the ledger requires to be tightly controlled to mitigate the risk of fraudulent mis-postings. We identified in year that access rights were not regularly reviewed. We also found there were some users with a high level 	<p>We reviewed the journals across the year to identify those which had been posted by those with a higher level of access. We identified some journals which relate to former employees, however, they relate to interfaces with the ledger which are not actually posted but are automatic journals. The user recorded is the user who created the interface. We are satisfied that there are compensating controls within the overall IT access rights which would prevent ex-employees accessing the ledger.</p> <p>Our journals testing across the year reflected the increased risk arising from self-approval of journals and we did not identify any issues.</p> <p>Recommendation 2 (refer Appendix 1, action plan)</p>

of access rights which had not been timeously removed.	Journals procedures should be reviewed to minimise the risk with the ability of members of the finance team to approve their own journals.
<ul style="list-style-type: none"> We tested a sample of 17 journals to ensure the approvals process had been followed. There was insufficient evidence of authorisation for one of the sample. 	

2. Bank reconciliations

Bank reconciliations are a critical control to ensure that cash is accurately recorded in the ledger. We found that bank reconciliations were performed for each month of the year but the reconciliations completed for periods 10 to 12 were not completed timeously.

In addition at the year-end we identified over 20 bank accounts (mainly imprest accounts) with small balances which were not reconciled to the ledger on a regular basis.

We are satisfied that a reconciliation was conducted at the year end with no issues arising.

The bank letter at the year-end confirmed that the smaller imprest accounts were below our trivial level and did not represent a risk of material misstatement. We note that a number of accounts have a zero balance.

Recommendation 3 (refer [Appendix 1, action plan](#))

Bank reconciliations should be conducted on a monthly basis for all accounts which are in use. The Council should also consider the bank accounts held and if they are still required.

3. Payroll reconciliations

The Council undertakes a reconciliation between the ledger and the payroll system on a monthly basis in line with good practice. We reviewed an example of one month's reconciliation in 2022/23 and found limited evidence that the discrepancies between the ledger and payroll were not being followed up or investigated on a timely basis.

We reviewed the year-end reconciliation between the ledger and payroll system and concluded that the employee costs included in the ledger at the year-end were appropriate.

Recommendation 4 (refer [Appendix 1, action plan](#))

The Council should ensure any work conducted in reconciling the ledger to payroll is appropriately evidenced.

Source: Audit Scotland

25. Our work has been undertaken to provide an audit opinion on the annual report and accounts, and in response to our additional responsibilities set out in the Code of Audit Practice. The control deficiencies reported here are limited to those we identified while completing our audit work for these purposes.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Review of control accounts for classifications</p> <p>Our audit work identified some areas where the classification of transactions or balances was incorrectly disclosed within the notes to the accounts.</p> <p>Risk – the notes to the accounts do not reflect the underlying categories of the transactions.</p>	<p>The Council should ensure going forward that control accounts such as trade debtors are reviewed to ensure balances with central government and other public sector bodies are classified appropriately at the year-end.</p> <p>Exhibit 4,4</p>	<p>A further layer of internal review will be implemented for the 2023/24 accounts to ensure that the accuracy of Balance Sheet and Disclosure note classification is enhanced.</p> <p>Chief Financial Officer</p> <p>March 2024</p>
<p>2. Journals</p> <p>We reviewed the journals across the year to identify those which had been posted by those with a higher level of access. We identified some journals which relate to former employees, however, they relate to interfaces with the ledger which are not actually posted but are automatic journals.</p> <p>Risk – there is a risk of fraud or error.</p>	<p>Journals procedures should be reviewed to minimise the risk with the ability of members of the finance team to approve their own journals.</p> <p>Exhibit 5,1</p>	<p>We operate a control environment where staff at a designated level of seniority do not require counter signature. This being a reflection of the trust placed in senior employees and also to maintain a degree of practicality. I feel this is an acceptable risk for journal entries as non-cash transactions.</p> <p>Chief Financial Officer</p> <p>October 2023</p>
<p>3. Bank reconciliations</p> <p>bank reconciliations were performed for each month of the year but the</p>	<p>The Council should ensure bank reconciliations are performed and reviewed in a timely manner. The Council should also consider the bank</p>	<p>There was a period during 2022/23 where reconciliations were not completed in line with normal established timescales due to staff</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>reconciliations completed for periods 10 to 12 were not completed timeously.</p> <p>In addition at the year end we identified over 20 bank accounts (mainly imprest accounts) with small balances which were not reconciled to the ledger on a regular basis.</p> <p>Risk – there is a risk that errors may not be picked up and corrected timeously . There is also a risk that the Council is operating a number of bank accounts which are no longer required.</p>	<p>accounts held and if they are still required.</p> <p>Exhibit 5,2</p>	<p>unavailability. Since then reconciliations have returned to a normal cycle.</p> <p>Chief Financial Officer</p> <p>October 2023</p>
<p>4. Payroll reconciliations</p> <p>The Council undertakes a reconciliation between the ledger and the payroll system on a monthly basis in line with good practice. We reviewed an example of one month's reconciliation in 2022/23 and found limited evidence that the discrepancies between the ledger and payroll were not being followed up or investigated on a timely basis.</p>	<p>The Council should ensure any work conducted in reconciling the ledger to payroll is appropriately evidenced.</p> <p>Exhibit 5,3</p>	<p>Agreed.</p>

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £250,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr £m	Cr £m	Dr £m	Cr £m
1. Asset addition recognised in incorrect period	Payables				0.312
	PPE			0.312	
2. Expenditure reclassification	CIES	0.631			
	PPE additions				0.631

Midlothian Council

2022/23 Annual Audit Report

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Annual Accounts for the year ended 31 March 2023

Report by David Gladwin, Chief Financial Officer & Section 95 Officer

Report for Decision

1 Recommendation

Audit Committee is recommended to approve the 2022/23 audited accounts for signature in light of the appointed auditor's report for 2022/23.

2 Purpose of Report/Executive Summary

The purpose of this report is to present the Council's audited Financial Statements for 2022/23 to Audit Committee and to provide a brief overview of findings during the audit process.

24th October 2023.

Report Contact:

David Gladwin Tel No 0131 271 3113

E mail david.gladwin@midlothian.gov.uk

3 Background

Council submitted its unaudited annual accounts to the external auditor by the required date of 30th June 2022 and they were examined in detail at Audit Committee on Monday 26th June 2023.

3.1 Regulations

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

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

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

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

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

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

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

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

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

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

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

Due to additional challenges across the sector in completing and auditing financial statements during 2020/21 and 2021/22 Scottish Ministers agreed to an extension to statutory timescales. Whilst this does not extend into 2022/23 accounts normal deadlines remain challenging. Local authorities are required to publish signed annual accounts no later than 31st October immediately following the financial year to which they relate.

Accordingly, the accounts are presented to Audit Committee today as required by the regulations alongside the 2022/23 Annual Audit Report to Members and the Controller of Audit – year ended 31 March 2023 prepared by the appointed external auditor, Audit Scotland.

The full external auditors report including commentary extending beyond the 2022/23 accounts will be presented to Audit Committee in December prior to full Council on Tuesday 19th December. A copy of the audited accounts will be provided to all members of Council.

3.2 Audit findings

Audit Scotland have issued an unqualified audit opinion on the 2022/23 financial statements for the Council and its Group.

Adjustments to the Unaudited Financial Statements

3.2.1 *Accumulated Absence Account*

Regulations allow a statutory adjustment to the Accumulated Absence Account for a financial assessment of the liability relating to unused annual leave at the balance sheet date. Calculations reflected in the unaudited accounts also include values relating to flexitime and time off in lieu balances and this is consistent with previous years but is not in accordance with latest accounting guidance. The following adjustment for this has been made to the draft audited accounts:

- Cr Comprehensive Income and Expenditure Account - £0.681 million
- Dr Statutory Adjustments - £0.681million
- Dr Creditors - £0.681 million
- Cr Employee Benefits Statutory Adjustment Account - £0.681 million.

3.2.2 *Scottish Government Funding for Ukrainians*

The unaudited accounts provided for an assessment of the outstanding funding position from the Scottish Government for Ukrainian resettlement schemes. It was accepted at this time that work was underway to re-calculate funding for all Scottish Local Authorities and this would not conclude until after the unaudited accounts were finalised.

Since publishing the unaudited accounts two significant events have occurred and are reflected in the draft audited financial statements:

1. The figures calculated for arrival payments and thank you payments did not contain the most up to date rates of funding per individual. This understated the value of funding due to the Council by the Scottish Government by £0.351 million.
2. A national reconciliation of funding was concluded tracking movement of people between Local Authority areas. This resulted in a further £0.419 million becoming due to Midlothian Council.

Accordingly, the following adjustments have been made to the draft audited accounts:

- Cr Comprehensive Income and Expenditure Account - £0.770 million
- Dr Debtors - £0.664 million
- Dr Creditors £ 0.106 million

These entries increase the Council's General Fund balance by £0.770 million to £34.963 million with all the increase specifically earmarked for use in supporting Ukrainian resettlement.

3.2.3 *Debtors and Creditors*

Audit work highlighted two presentational errors between debtors and creditors in the Balance Sheet that have been adjusted in the accounts. The cumulated adjustment is:

- Dr Debtors - £5.948 million
- Cr Creditors - £5.948 million

These adjustments have no impact on the CIES or on any Reserves totals.

3.2.4 *Lothian Pension Fund Valuation*

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.

Figures in this context show that the net present value of future employer contributions exceeds the future employer service costs thus giving a negative contribution. Accounting standards dictate that in these circumstances no asset or liability should be disclosed in the Council's Balance Sheet.

However, audit review of actuarial valuations and application of accounting standards has highlighted that any unfunded element of a Pension Fund Valuation must either be offset against any asset shown, or in the case of Midlothian as a liability. The actuarial valuation at the 31st March 2023 shows £7.800 million of unfunded assets. Consequently, the Councils accounts have been adjusted with the following entries:

- Dr Pension Reserve - £7.800 million
- Cr Net Pension Liability - £7.800 million

Unfunded benefits are liabilities of individual employers as a consequence of discretionary enhanced severance approvals. There are no plan assets to meet these liabilities.

3.3 Management Commentary, Remuneration Report, Annual Governance Statement and Disclosures

As indicated by Audit Scotland the unaudited financial statements were prepared to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, the Council's finance team worked with Audit Scotland to make amendments and enhancements to the presentation of the financial statements. Particular enhancements were made to the Remuneration Report and disclosure notes 23 (Debtors), 25 (Creditors) and 12 (Grant Income).

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

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

4.2 Digital

There are no digital issues arising directly from this report.

4.3 Risk

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

4.4 Ensuring Equalities

There are no equality implications arising directly from this report.

4.5 Additional Report Implications See Appendix A

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

No consultation was required.

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

Appendix – Draft Audited Annual Accounts 2022/23



MIDLOTHIAN COUNCIL UNAUDITED ANNUAL ACCOUNTS

2022/23



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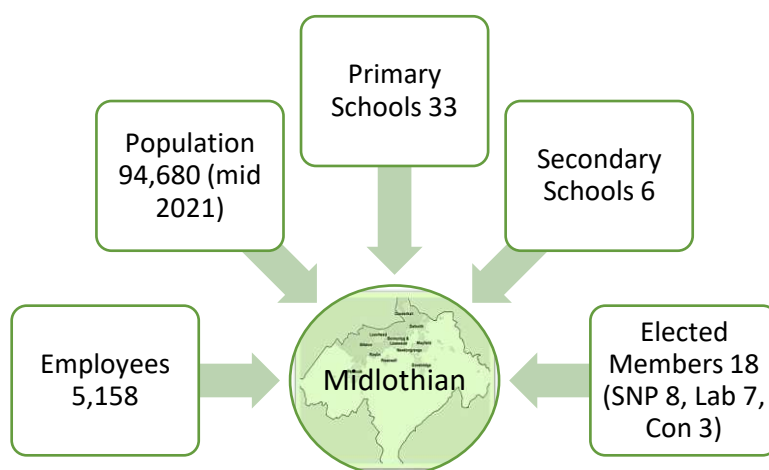
Management Commentary

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.

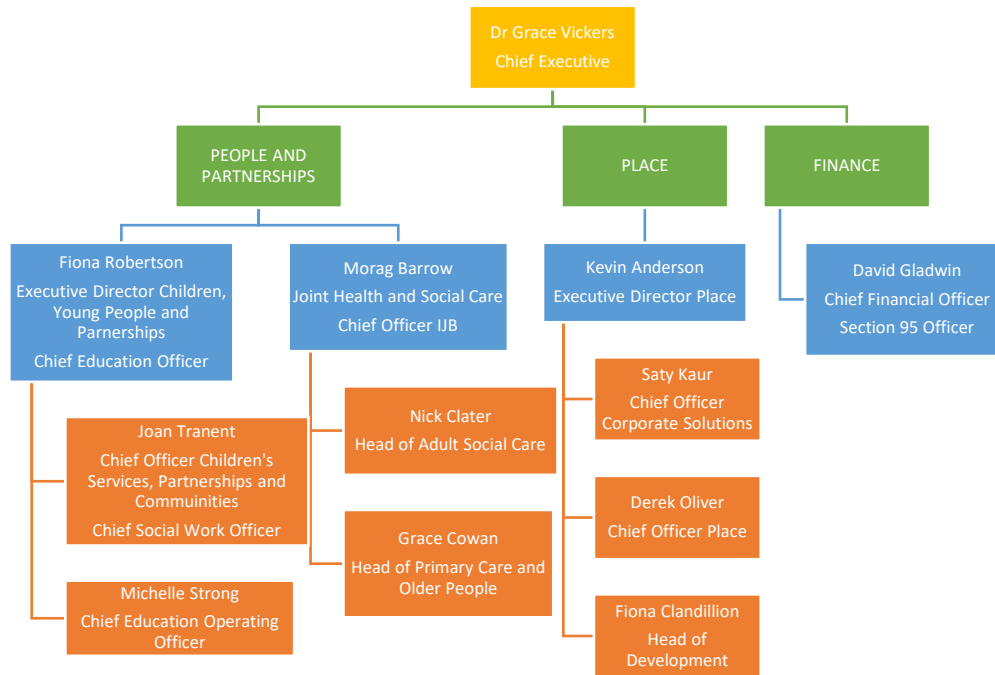
The Annual Accounts present the financial position and performance of the Council demonstrating the stewardship of funds that support the Council's vision and key priorities. The format and content of the Annual Accounts are prepared in accordance with *Code of Practice in Local Authority Accounting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



Council Service Structure



Key Priorities and Objectives

Midlothian Council's key priorities and objectives are set out in the [Single Midlothian Plan 2022/23](#) (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 for Midlothian to be a "Great *Green Place to Grow*".

The Single Midlothian Plan has identified its three main outcomes for the next five years,

- Individuals and communities have improved health and learning outcomes;
- No child or household living in poverty;
- Significant progress is made towards net zero carbon emissions by 2030.

These form the common and strategic guidance for the Council and its partners to encourage plans and measures to be developed to work towards enabling individuals and communities being able to lead healthier, safer, greener and successful lives by 2030.

How we work together:



In line with the Single Midlothian Plan the Council's strategic goal is to create a wellbeing economy where our people and environment flourish. With a continued focus on Early Intervention and Prevention, Midlothian aspires to be a socially, economically and ecologically sustainable community by 2030. The Council aims to reduce inequalities in learning outcomes, health outcomes and economic circumstances at the same time as working towards carbon neutral status by 2030. The goal is supported by five strategic outcomes:

1. **Fostering empowered, inclusive, resilient and safe communities** – The adoption of the Place Principle will help promote a shared understanding of Place and the need to take a more collaborative approach to Place's services and assets to achieve better outcomes for peoples and communities. The principle encourages and enables local flexibility to respond to issues and circumstances in different places.
2. **Supporting individuals and communities to be the best they can be** – this will be achieved through a nurturing, respectful and collaborative approach that promotes wellbeing, equity, inclusion and lifelong learning.
3. **Transforming health and social care** – The Council's services will provide the right support, at the right time and in the right place. This will be achieved by placing more importance and a greater proportion of the Council's resources on the Council's key values.
4. **Accelerating inclusive growth** – the Council will deliver an ambitious capital programme, providing new passive standard homes and upgrade infrastructure across the county, leverage the opportunities through the City Region Deal and facilitate opportunities for inward investment and inclusive growth.
5. **Carbon Neutral by 2030** – the Council will work with its communities and partners to be carbon neutral by 2030, providing green clean spaces for its residents, promoting modal shift, behavioural change and active travel.

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 2022/23 can be found on the Council's website [Midlothian Council/Performance and spending](#).

Key Achievements and Highlights for 2022/23

Achievement	Commentary
Implementation of House Project, for care- experienced young people.	Midlothian is among one of the first local authorities in Scotland to set up a House Project, which offers secure social tenancies and a programme of peer learning and support for young people leaving care or who are homeless. The project is being championed by the charity Crises, who recognises the work done by the Council's Children's Services department and partners in its report 75 ways to prevent homelessness .
Scottish Education Award for Head Teacher of the year 2022	Out of the three Head Teachers shortlisted, two were from Midlothian, for Dalkeith and St David's High Schools.
Provision of Affordable Housing	The Council's Strategic Housing Investment Programme (SHIP) was submitted to the Scottish Government in November 2022. To address the need for affordable housing the SHIP details potential sites for 2,594 new affordable homes to be built during 2023-28. During 2022/23 97 new Council Houses were completed, this brings the total completed to 1,519 over the past 16 years, net of demolitions and disposals. In addition, 28 properties were purchased during the year to add to the overall housing stock.

Financial Performance 2022/23

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 2022/23. Full details of the Council's financial performance were reported to Council on 27 June 2023 and is available on the [Council's website](#).

Useable Reserves

The Council holds funds in a number of Useable Reserves for various purposes. Details of the balances and prior year comparatives are shown in the table below, more detail can be found in the Movement in Reserves Statement on Page 39:

Useable Reserve	Purpose	2022/23 £000	2021/22 £000
General Fund Non-Earmarked Reserve	Funds held as a general contingency.	9,877	5,597
	Anticipated Settlement of VAT Claim.	6,839	0
General Fund Earmarked Reserve	Funds held for specific purposes (note 8).	18,247	26,835
Housing Revenue Account	Funds held for investment in the Council's housing stock.	32,143	28,084
Capital Fund	Funds set aside for major capital developments or asset purchases.	20,107	22,178
Repairs and Renewals Fund	Funds held for specific types of repairs and maintenance work.	4,138	3,718

General Fund Performance

The General Fund is a 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 the statutory rules provide otherwise. Government grants, council tax income, fees and charges, non-domestic rates income (subject to pooling arrangements) and interest/returns on investments provide resources for the General Fund. The General Fund is split between non-earmarked balances (the level of funding available to the Council to manage financial risks and unplanned expenditure) and balances that are earmarked for specific purposes (**see note 8**).

Actual outturns against budget for each of the Council's General Fund Service areas as follows:

General Fund Revenue Outturn 2022/23			
Service Area	Revised Budget £000	Net Expenditure £000	(Under)/Overspend £000
Management and Members <i>Place:</i>	1,993	1,989	(4)
Corporate Solutions	26,551	25,870	(681)
Place	40,266	38,694	(1,572)
Central Costs	118	294	176
<i>People & Partnerships:</i>			
Midlothian Integration Joint Board	56,612	56,612	(0)
Adult Health & Social Care – Non-Delegated	2,115	(4,821)	(6,936)
Children's Services, Partnerships and Communities (1)	19,044	18,025	(1,019)
Education	119,955	119,698	(257)
Lothian Valuation Joint Boards	582	565	(17)
Non-distributable Costs	899	773	(126)
General Services Net Expenditure	268,135	257,699	(10,436)
Loan Charges	2,764	952	(1,812)
NDR Discretionary Relief	71	82	11
Investment Income	(111)	(34)	77
Allocations to HRA, Capital Account etc.	(5,332)	(5,146)	186
Total Expenditure	265,527	253,553	(11,974)
Less Funding			
Scottish Government Grant	195,092	195,435	(343)
Council Tax	58,496	58,580	(84)
Transfer from Housing Revenue Account	2,069	2,069	0
Utilisation of Reserves	9,870	(2,531)	(11,547)
General Fund Reserve (MIRS)	(32,432)	(2,531)	(34,963)

(1) Includes Audit Adjustment of £0.770 million for Ukrainian Refugee Grant Funding Accrual.

The most significant areas contributing to the favourable variances against budget in Council service areas were in relation to:

- Two claims with HMRC for overpaid VAT on sporting activities. These date back to around 2009 and have been the subject of ongoing legal debate until March 2023 when HMRC announced in Revenue and Customs Brief 3 (2023) that Local Authorities' leisure services are "provided under a statutory framework and can be treated as non-business for VAT purposes". The estimated net impact amounts to £6.839 million and that figure is included in the 2022/23 accounts within the Adult Health and Social Care – Non-Delegated Service figure in the above table;
- Council Officers from Midlothian and the City of Edinburgh Council (CEC), as part of the joint management and monitoring arrangements for the waste plant at Millerhill, have been working through calculations for third party income due. In the financial year 2022/23 £0.879 million of unbudgeted income was paid to Midlothian. Income projections for future years are included in Medium Term Financial Strategy (MTFS) projections;
- A one-off receipt of income of £0.573 million was received in respect of agreed legal right of access (servitude) across Midlothian Council land;
- Significantly higher surplus cash flow than expected linked to lower than planned spend on Capital Programmes alongside a continued higher interest rate environment provided opportunity to

generate a significantly higher return on short term deposits in 2022/23 than was anticipated when the budget was set. Approved methodology for allocating Loan Charges between General Fund and Housing Revenue Account results in the majority of this upside benefitting the General Fund. There is an underspend of £1.813 million as shown in the Loan Charges line;

- Midlothian Council provide Midlothian Integration Joint Board an annual sum for services now managed by Midlothian Health and Social Care Partnership that were previously council managed. This sum is adjusted in-year in accordance with the integration scheme. Detailed commentary on the financial performance of the Midlothian Integration Joint Board is contained in their accounts.

Full details of all other variances affecting the Final Outturn position can be found in the 27 June Council report [Financial Monitoring 2022/23 - General Fund Revenue](#).

Summary Position

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 Midlothian Integrated Joint Board), which equates to £4.178 million. In 2022/23 there was an increase of £2.531 million in the General Fund Reserve comprising the £11.548 million underspend detailed above, planned utilisation of reserves of £26.010 million, application of Business Transformation funding of £0.269 million and budgets to be carried forward for use in 2023/24 of £17.262 million. Further details are provided in the Movement in Reserves Statement on Page 39.

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. Rents paid by tenants' funds the revenue expenditure on housing management, repairs and maintenance and in part financing of capital expenditure. The table below provides analysis of financial performance for 2022/23:

Housing Revenue Account Outturn 2022/23	Revised Budget £000	Net Expenditure £000	(Under)/Overspend £000
Expenditure:			
Repairs & Maintenance	7,220	8,137	917
Administration and Management	5,332	5,146	(186)
Loan Charges	13,790	11,587	(2,203)
Other Expenses	2,898	3,236	338
Total Expenditure	29,240	28,106	(1,134)
Income:			
Council House Rents	(31,950)	(31,026)	924
Other Rents & Recharges	(1,103)	(1,139)	(36)
Total Income	(33,053)	(32,165)	888
Net Expenditure (Income)	(3,813)	(4,059)	(246)
Reserve Movement	Opening Balance	Movement	Closing Balance
HRA Reserve	(28,084)	(4,059)	(32,143)
Total HRA Reserve	(28,084)	(4,059)	32,143

Overall, the HRA showed favourable variances at the year-end due to re-phasing of the Capital Plan resulting in reduced borrowing costs for the year of £2.203 million, offset by a reduction in the use of temporary accommodation giving rise to increase in void repairs and reduced level of rents received of £0.917 million and £0.924 million respectively. The closing balance on the Housing Revenue Account

reserve is £32.143 million, this is committed to fund the Council's ambitious capital investment plan, which currently runs to 2037/38, to build further new housing stock and continue to improve and upgrade its existing stock, particularly through Scottish Housing Quality Standards (SHQS) improvement and Energy Efficiency Standard for Social Housing (EESH) 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.

Reconciliation of General Fund and Housing Revenue Account Monitoring to the EFA

The table below provides a reconciliation to assist users of the accounts to navigate from the Midlothian Council Budget Monitoring position on page 8 to the first column in the Expenditure and Funding Analysis (EFA) on page 42. The Expenditure and Funding Analysis provides the link between the Final Outturn reports and the figures in the Comprehensive Income and Expenditure Statement (CIES) by removing the various statutory adjustments required under generally accepted accounting practices.

Final Outturn to EFA Reconciliation			
Service Area	Final Outturn Net Expenditure £000	Internal Reporting Adjustments (see table below) £000	Figure Reported in EFA £000
Management and Members <i>Place:</i>	1,989	(21)	1,968
Corporate Solutions	25,870	(7,459)	18,411
Place	38,694	(2,938)	35,756
Central Costs <i>People & Partnerships:</i>	294	(84)	210
Midlothian Integrated Joint Board	56,612	0	56,612
Adult Health & Social Care – Non-Delegated	(4,821)	0	(4,821)
Children's Services, Partnerships and Communities	18,025	0	18,025
Education	119,698	(9,695)	110,003
Lothian Valuation Joint Boards	565	0	565
Non-distributable Costs <i>Add Back:</i>	773	0	773
Housing Revenue Account	0	(15,957)	(15,957)
Net Expenditure	257,699	(36,154)	221,545
Loan Charges	952	19,615	20,567
Investment Income	(34)	0	(34)
Allocations to HRA, Capital Account etc.	(5,146)	5,146	0
HRA Transfer	(2,069)	2,069	0
NDR Discretionary Relief	82	(82)	0
Scottish Government Grant	(195,435)	82	(195,353)
Council Tax	(58,580)	5,265	(53,315)
Other Income and Expenditure	(260,230)	32,095	(228,135)
Utilisation of Reserves	(2,531)	(4,059)	(6,590)

Internal Reporting Adjustments					
Service Area	HRA £000	PPP £000	Council Tax Reduction £000	Other £000	Total £000
Management and Members <i>Place:</i>	(21)	0	0	0	(21)
Corporate Solutions	(2,172)	0	(5,265)	(22)	(7,459)
Place	(2,641)	(944)	0	647	(2,938)
Central Costs	0	0	0	(84)	(84)
<i>People & Partnerships:</i>					
Education	0	(5,249)	0	(4,446)	(9,695)
<i>Add Back:</i>					
Housing Revenue Account	(15,957)	0	0	0	(15,957)
Net Expenditure	(20,791)	(6,193)	(5,265)	(3,905)	(36,154)
Loan Charges	9,517	6,193	0	3,905	19,615
NDR Discretionary Relief	0	0	0	(82)	(82)
Allocations to HRA, Capital Account etc.	5,146	0	0	0	5,146
HRA Transfer	2,069	0	0	0	2,069
Scottish Government Grant	0	0	0	82	82
Council Tax	0	0	5,265	0	5,265
Other Income and Expenditure	16,732	6,193	5,265	3,905	32,095
Utilisation of Reserves	(4,059)	0	0	0	(4,059)

Capital Expenditure 2022/23

Capital expenditure represents the 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 2022/23 the final budget for General Services capital investment was £23.291 million (2021/22 £23.499 million), which was overspent by £0.031 million. The table below identifies actual capital spend during the financial year for key projects:

2021/22 Revised Budget £000	2021/22 Actual Spend £000		2022/23 Revised Budget £000	2022/23 Actual Spend £000
		General Fund Capital Spend		
6,071	5,831	School Estate	5,254	5,300
4,421	4,421	Roads, Pavements and Street Lighting	5,833	5,833
1,455	1,455	Fleet Replacement and Upgrades	1,911	1,911
6,294	6,294	Digital Assets	1,869	1,869
686	686	Centralised Property Upgrades	837	837
4,572	4,790	Other Capital Projects	7,587	7,572
23,499	23,477	Total Spend	23,291	23,322

The table below demonstrates the breakdown of the Housing Revenue Account Capital Spend for 2022/23

2021/22 Revised Budget	2021/22 Actual Spend		2022/23 Revised Budget	2022/23 Actual Spend
£000	£000	Housing Capital Spend	£000	£000
35,530	35,530	New Social Housing and Market Purchases	42,142	42,142
3,235	3,235	SHQS Improvement Works	8,785	8,785
2,005	2,134	Other Small Capital Projects	826	783
40,770	40,899	Total Spend	51,753	51,710

A combination of government grants, external funding contributions from third parties, capital receipts, Section 75 developer contributions and prudential borrowing funded this expenditure. **Note 32** in the financial statements provides a full analysis of capital expenditure and the financing required.

Treasury Management and Investment

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

Financial Indicator	2021/22	2022/23	Commentary
Capital financing requirement – underlying need to borrow (excluding PFI/PPP/DBFM)	£307.247m	£347.661m	Reflects the Council's underlying need to borrow to finance capital expenditure incurred historically by the Council that has yet to be financed.
Authorised Debt Limit	£676.508m	£472.662m	This represents the maximum amount that the authority may borrow and is set at a level that reflects capital expenditure plans but includes headroom to allow for unusual cash movements, i.e., treasury management.
Actual external borrowing	£323.271m	£321.753m	The actual external debt and long-term liabilities position of the Council. The actual figures should never exceed the Council's Authorised Debt Limits, which are calculated in line with the requirements of the Prudential Code for Capital Finance in local authorities.
Under/(Over) Borrowed	£ (16.024)m	£25.908m	This demonstrates that the Council's capital borrowing requirement has not been fully funded by loan debt and is using cash from working capital to support capital programmes whilst interest rates on long-term fixed rate borrowing are high.
Ratio of finance costs to net revenue stream – General Fund	1.08%	0.38%	This is a measure of how affordable the Council's capital plans are. It takes actual finance costs as a % of net revenue spend. The reduction in 2022/23 reflects the application of a principal repayment holiday, along with deposit interest receivable being higher than expected due to the Council holding higher than expected surplus cash flow generated funds throughout the year, thereby reducing the loans fund interest charge to the General Fund.
Ratio of finance costs to net revenue stream – HRA	38.27%	36.03%	As above excluding loans fund principal repayment holiday.
External Loans Fund Interest Rate	3.22%	3.01%	Average rate of interest paid on external debt.
Internal Loans Fund Interest Rate	2.98%	2.41%	This combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges to arrive at a weighted average 'loans fund rate' figure for the council.

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 19** and **Note 20** 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 2023. 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 40.

	31 March 23 £000	31 March 22 £000	Change £000
Long-term Assets	1,207,334	1,125,065	82,269
Current Assets	158,690	192,355	(33,665)
Current Liabilities	(107,711)	(102,024)	(5,687)
Long-term Liabilities	(418,029)	(468,956)	50,927
Net Assets	840,284	746,440	93,844

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

Pension Obligation

The impact of the Local Government Pension Scheme and Scottish Teachers Superannuation Scheme on the Council's accounts have been disclosed in **Notes 34** and **35** to the accounts. As at 31 March 2023, the Council's share of Lothian Pension Fund showed a net pension asset of £188.463 million (2021/22 pension liability £54.160 million). However, under the International Financial Reporting Interpretations Committee Standard 14 – The Limit of a Defined Benefit Asset (IFRIC 14) the actuary has calculated the net present value of the future contributions of £154.671 million exceeds the value of the future service costs of £143.449 million, a negative contribution. As a result of this calculation, IFRIC 14 advises that no defined benefit plan asset should be recognised in the Council's Balance Sheet and there is no requirement to recognise the £11.222 million difference as a liability, however, it is required to reflect the liability in relation to present value of unfunded obligations of £7.8 million.

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The most recent formal valuation was March 2020 with the subsequent results based on a roll forward from the formal valuation. The movements in the pension valuation are due to a combination of:

- The net discount rate (discount rate net of CPI inflation) has significantly increased by 2.05%, leading to a large gain on the balance sheet;
- A 0.25% decrease in the Pension and Salary Increase Rate assumption which has served to reduce the Employer's obligations, leading to a gain on the balance sheet;
- Longevity Assumptions have changed from the previous accounting period to reflect the latest available mortality improvement table, serving to reduce the employer's obligation and leading to a gain on the balance sheet;
- An increase in obligations, resulting from applying the actual Pensions Increase Order for April 2023 of 10.1% to the benefits, which is significantly higher than the pension increase rate assumption of 3.2% built into the obligations at the start of the accounting period, leading to a loss on the balance sheet.

Long-term Assets

Long-term Assets have increased in value by £82.269m. This is primarily related to continued investment in new assets across the Council and increases in the value of our existing assets which have been revalued as part of our five-year rolling revaluation programme. Further details of these movements can be found in **Notes 14-17** of the annual accounts.

Current Assets – A reduction in short-term and liquid deposits within current assets to £115.776 million.

Long-term Liabilities – Long-term Borrowing

Due to borrowing undertaken late in 2021/22, slower general services capital expenditure in 2022/23 and a rising interest rate environment, no external borrowing was taken in 2022/23.

Risks and Uncertainties Facing the Council

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 on demand for Council services are only likely to increase as it reacts to future challenges which have been exacerbated by the recent pandemic and a growing cost of living crises. Some of the challenges the Council face include:

Risk and Uncertainty	Commentary
Continued Demographic Pressures	Continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care and the significant population growth in Midlothian. Increasing financial hardship is also expected due to the cost-of-living crisis resulting in an increase in the level of poverty rates. 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.
Requirement to maintain the physical condition of major capital assets	The Council continues to monitor the impact on its capital programmes arising from supply chain difficulties and rising inflation, resulting in longer lead times and increased development costs.
Social Care Reform	Although the Scottish Government proposal is still in the early stages, such a major transformation will risk a diversion from tackling immediate challenges within the Social Care sector. There is still concern about the destination of the policy and future of funding for Council's.
Long-term impact on the local economy following the Covid-19 pandemic and leaving the European Union	It is difficult to untangle the combined impacts of leaving the European Union and Covid-19, however both have contributed to a supply shock leading to the Council facing higher prices and shortages of key resources, particularly in the construction and care sectors. The Council remains uncertain about the long-term effect of leaving the European Union and Covid-19 but are continuing to monitor the impact on its services and citizens.
Climate Change	The Council recognises that climate change is an urgent issue and has committed to be carbon neutral by 2030, this is an ambitious target and will require significant investment and resource to achieve this by the specified deadline.
Financial Pressures	Pay and other inflation and Scottish Government Grant Income projections are critical areas of modelling given their overall significance and uncertainty. For 2022/23, and again for 2023/24, the Scottish Government published a one-year budget and grant settlement. In May 2022 the Scottish Government published a Resource Spending Review (RSR) which provided financial planning parameters through to 2026/27. In respect of grant support to Councils the RSR indicated that settlements would remain cash flat through to 2025/26 with a small increase for 2026/27. This represents a challenging outlook for local government with a real term's reduction in grant income at a time when costs and service demands continue to rise. There are a number of factors, which will continue to influence the actual level of grant support the Council might expect for 2023/24 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.

Whilst an assessment of economic factors can be made at this time, based on various sets of published information the impact of Scottish Government's tax and spending priorities will only become apparent when the Scottish Government's 2024/25 budget is published later in 2023.

In February 2023 the Council set a balanced budget for 2023/24 which included a council tax increase of 5% for the financial year, use of one-off fiscal flexibilities relating to service concessions and a £1.166 million use of general reserve. In the context of reduced real terms external funding and growth in demand

for services, the Council has a considerable challenge to ensure its future expenditure plans are financially sustainable. Updated Medium Term Financial Strategy (MTFS) forecasts show a budget gap of £34.7 million for the period of 2024/25 to 2028/29. Further infrastructure requirements, some of which will prove essential, will increase the gap further.

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 managed by the Corporate Management Team provides assurance through scrutiny and challenge and ensures that the significant risks facing the Council have been identified and effective treatment actions are implemented. The Corporate Risk Register is then submitted to Audit Committee for approval which provides effective scrutiny and challenge as part of the Council's corporate governance arrangements.
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 21 Feb 2023 Council agreed a Medium Term Financial Strategy 2023/24-2027/28 , which set out budget projections for 2023/24-2027/28. A further iteration of the MTFS was reported to Council on 27 June 2023, Midlothian Council Transformation Blueprint , extending the period to 2028/29 and shows a budget gap over the period of £34.7 million. Projections will continue to be refined on a regular basis. The MTFS sets out cost projections for pay inflation, price inflation, debt charges and the impact of demographic changes together with projections of income. As a framework to address the financial challenge, a Transformation Blueprint has been prepared and will be considered by Council on 27 June 2023. The Blueprint contains Strategic Themes of Following the Money, 21st Century Workforce, Commercialisation and Income Generation, Workplaces for the Future and Multi-agency transformation. Within each theme sits a number of individual projects phased over the next two financial years with eight commencing in quarter 1 of 2023/24. Council will also continue to explore any options to increase external funding including early discussion with the Scottish Government on funding fast growing Councils.

Looking Ahead

Moving into 2023/24, the Council anticipates a continuation of focus towards medium and long-term recovery following the pandemic. 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 and to providing support during the subsequent cost of living crisis. The pandemic and cost of living crisis will cause 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, Midlothian Council also faces additional pressure being the fastest growing local authority in Scotland, resulting in greater demand for services with future funding for Local Government. This is likely to remain severely constrained due the impact of the pandemic, leaving the European Union, cost of living crisis and uncertain levels of growth and productivity in the Scottish economy. The Council's Capital Plan will also see further major investment in the following areas over the coming years:

Capital Expenditure	Commentary
School Infrastructure	<ul style="list-style-type: none"> • Equipped for Learning Programme; • Wide-ranging school building, extension and refurbishment programme; • A replacement of Beeslack Community High School and refurbishment of Penicuik High School; • A new school campus proposed at Shawfair; • 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	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • 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 Plan, 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 elected members 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 the external risks and challenges facing the Council, including the possible financial and economic impacts. From a financial perspective, the potential impact on future Scottish Government grant funding levels, and from an economic perspective, the potential lack of skilled resource and the impact on the local economy.

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

Conclusion

The Council had to deal with the continuing impacts of a global pandemic as well as long-standing and growing demographic pressures and a growing cost of living crisis resulting in increasing pressures on Council resources and demand for its services. External funding is not growing in line with cost pressures thus increasing the challenge to reach long-term financial stability. 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 and Transformation BluePrint to ensure the Council has longer term financial sustainability.

Acknowledgements

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.

David Gladwin

Chief Financial Officer

Dr Grace Vickers

Chief Executive

Councillor Kelly Parry

Leader of the Council

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 Financial Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

I certify that the Annual Accounts have been approved for signature by, or on behalf of, the authority.

Councillor Kelly Parry
Leader of the Council
Date:

The Chief Financial Officer Responsibilities

The Chief Financial Officer 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 Financial Officer 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 2023.

David Gladwin
Chief Financial Officer

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 2023, 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.

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 the following:-

- 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' (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 Framework 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) 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 strong 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 was provided during the year to the Council by the Chief Officer Children's Services, Partnerships and Communities (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. When Council and Committee meetings are held using a virtual platform, they are live-streamed to ensure public access, and recordings can be accessed from the Council's website.

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.

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. Asset management planning is being developed to support this.

The Council 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 took place following elections in May 2022 and 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 & 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 is refreshing its 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 Acting Chief Financial Officer (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 (updated in June 2022), 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. The 2022/23 budget was approved by Council in February 2022. Given the significant fiscal challenges which lie ahead, work is ongoing to agree the Council's Blueprint/Strategic Plan, aligned to the Medium-Term Financial Strategy. This will then inform the revised service plans, workforce plans and the long-term sustainability of services. Current assessment of a budget gap of approximately £29.121 million for the Council over the next 5 years,

coupled with the current rate of inflation, will place unprecedented financial pressure on the Council which will require difficult decisions to be made in relation to both Capital and Revenue Budgets.

The previous Chief Officer Corporate Solutions carried out a self-assessment against the CIPFA FM code and reported the findings of this to CMT in September 2021 and this was subsequently reported to Audit Committee in December 2021. The Chief Officer Corporate Solutions identified six areas requiring improvement from his review of the CIPFA FM code. Actions identified included improving the resourcing of the Procurement team (Ongoing), updating the Council's Financial Regulations and Directives (Complete – approved at June 2022 Council), putting in place a multi-year financial plan (Ongoing – action relevant to two sections of the FM Code), improving the Council's approach to lessons learned from completed projects (Ongoing), and improving the Council's risk management arrangements (Ongoing). No further Committee update has been provided within the 2022/23 financial year.

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, & 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 2022/23. This is based on work carried out by an in-house team, with supplementary support from an outsourced partner, including shared services resources (from January to June 2023), 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 sets out the financial position in accordance with relevant accounting regulations.

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

An annual review of the adequacy and effectiveness of the Council's overall governance framework has been carried out, taking into account the ongoing recovery from the Covid-19 pandemic impact in 2022/23 on business as usual in the delivery of services and in person and virtual committee meetings to enable decision-making. The output is this Annual Governance Statement which is presented to the Audit Committee.

The review was further informed by assurances from: assessment of compliance against the Local Code; written assurance statements from the Executive Directors; 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.

In respect of the implementation of the remaining Best Value Audit Actions (nos. 1-4 improvement areas of governance identified by the Council in 2020/21), a Best Value Assurance Update Report by the Chief Executive was presented to Council in June 2021. This set out further progress to address the recommendations made in order to demonstrate Best Value. These actions are now all materially completed. The Council however recognises improvements are required in the areas presented below.

Improvement Areas of Governance

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

- 1) The previous Chief Officer Corporate Solutions carried out a self-assessment against the CIPFA FM code and reported the findings of this to CMT in September 2021 and this was subsequently reported to Audit Committee in December 2021. One of the actions identified was putting in place a multi-year financial plan. Work is ongoing to agree the Council's Blueprint/Strategic Plan, aligned to the Medium-Term Financial Strategy. This will then inform the revised service plans, workforce plans and the long-term sustainability of services. Current assessment of a budget gap of approximately £30 million for the Council over the next 5 years coupled with the current rate of inflation requires putting in place an approved multi-year financial plan key to developing the Council on a sustainable basis. Dedicated Financial Management CMT meetings have been implemented on a quarterly basis to challenge and scrutinise budgets in order to improve financial discipline.
- 2) The Procurement Service is undergoing a service review and the Procurement Manager post is currently vacant and the recruitment process is underway. The Legal and Governance Manager is overseeing this service providing a level of assurance and compliance in the absence of the Procurement Manager. Issues arising from the reduced team capacity are the off contract spend and non-contracted spend within the organisation. Expired contracts and off contracts spend is being managed through regular review at Budget Boards who work to ensure that the risk is managed and the appropriate remedial action is being taken; with oversight from the Executive Director and Chief Officers. In addition as part of the Council's Blueprint under theme1 follow the money a sprint looking at contract management and a review of transport is being progressed.
- 3) Capital Plan Affordability review continues as the paper that was approved by Council on 21 February 2023, detailed that the Loan Charges arising from capital expenditure within the General Services Capital Plan, including planned Learning Estate Programme projects that are under development is expected to significantly exceed the Loan Charges levels as per the Council's approved Medium Term Financial Strategy over the period 2023/24 to 2027/28. The paper considered by Council approved the deferral, pause or deletion of £10.604 million of capital expenditure, against a target of £71.901 million (the level required to bring Loan Charges within the Medium-Term Financial Strategy targets). Therefore, a further £61.297 million of capital expenditure from fully approved projects and 'in principle' projects still needs to be deleted from, paused or deferred within the General Services Capital Plan. Work Continues to establish an approved affordable and financially sustainable Capital Plan for the Council moving forward.
- 4) Workforce planning to address recruitment, retention and resilience is taking place. The approach to Organisational Development is under review with the addition of a new OD post. A revised OD programme will be delivered in 2023 and the Wellbeing Strategy is being reviewed and refreshed in response to managing absence, following the impacts of the pandemic.

Conclusion and Opinion on Assurance

The conclusion from the review activity completed and subject to the successful progression of the areas for improvement highlighted above, our opinion is that reasonable assurance can be placed upon the adequacy and effectiveness of Midlothian Council's systems of governance, risk management and internal control. 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.

Dr Grace Vickers

Chief Executive

Kelly Parry

Leader of the Council

Remuneration Report

Introduction

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

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

Information disclosed in the tables in this report is subject to audit by Audit Scotland to report on whether that information has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014 (with the exception of the table in note 4.4). All other sections of the Remuneration Report, including the table in respect of Trade Union Facility Time, are read and considered to identify any material inconsistencies with the financial statements.

Remuneration of Councillors

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

The Regulations permit the Council to remunerate one Leader of the Council and one Provost. For 2022/23 the Regulations set the salary for the Leader of Midlothian Council £32,622 (2021/22 £31,010) and the salary for the Provost was set at £24,467 (2021/22 £23,257), the maximum level.

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 2022/23, the maximum salary which could be paid to a Senior Councillor was £24,467 (2021/22 £23,257) with the maximum number of Senior Councillors set at eight (excluding the Provost and the Leader). The total remuneration for Senior Councillors (excluding the Provost and the Leader) should not exceed £176,150 (2021/22 £167,446). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

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

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

Local elections took place on the 5 May 2022, Special Council on 24 May 2022 approved an SNP administration with an SNP Council Leader, Kelly Parry. Details of the Remuneration of Council Leader, Provost and Senior Councillors are shown in the table below:

Councillor Name and Responsibility	Salary	Expenses	Total Remuneration 2022/23	Total Remuneration 2021/22
Senior Councillor (May 22-Mar 23) post-election				
K Parry: Council Leader (1)	£30,728	£30	£30,758	n/a
D McCall: Provost (2)	£23,756	£125	£23,881	n/a
D Virgo: Group Leader (3)	£19,676	£148	£19,824	n/a
D Alexander: Cabinet Member (3)	£21,664	£162	£21,826	n/a
D Bowen: Cabinet Member (3,5)	£19,770	£76	£19,846	n/a
E Scott: Cabinet Member (3)	£19,770	£76	£19,846	n/a
S McKenzie: Cabinet Member (3)	£21,664	£15	£21,679	n/a
Senior Councillor (Apr 22-Mar 23)				
D Milligan: Group Leader (3,4)	£22,927	£262	£23,189	£31,484
R Imrie: Cabinet Member (3)	£21,996	£190	£22,186	£23,590
C Cassidy: Depute Leader and Group Leader (3)	£22,138	£36	£22,174	£6,052
Senior Councillor (Apr-May 22) pre-election				
J Muirhead: Depute Leader (3)	£2,368	£3	£2,371	£23,287
P Smail: Provost and Group Leader (2)	£3,736	£47	£3,783	£23,471
M Russell: Depute Provost (3)	£3,736	£27	£3,763	£23,386
S Curran: Cabinet Member (3)	£3,736	£0	£3,736	£23,257
J Hackett: Cabinet Member (3)	£2,368	£0	£2,368	£23,257
Total	£240,033	£1,197	£241,549	£177,784

Notes

- (1) FYE of Council Leader £32,622;
- (2) FYE of Provost £24,467;
- (3) FYE of Senior Councillor £22,019, D Milligan and C Cassidy higher due to holding Council Leader and Group Leader role between April to May 22;
- (4) Pre-election Council Leader to May 2022;
- (5) On 21 Mar 2023 D Bowen resigned as Cabinet Member and assumed the role of Depute Provost, the vacant Cabinet post was subsequently filled by C McManus.

The total remuneration of all the Council's elected members (including Senior Councillors above) and including all business expenses for 2022/23 was £0.391 Million (2021/22 £0.382 million). Detailed figures for these costs are available on the Council's website, [members' remuneration details for 2022/23](#).

Remuneration of Employees

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Committee (SJC) 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 Committee (SJC).

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

Senior Employee Name and Responsibility	Total Salary, Fees and Allowances 2022/23	Total Remuneration 2021/22
Full Year (Apr 22-Mar 23)		
G Vickers: Chief Executive	£125,540	£119,762
G Vickers: Returning Officer	£3,007	£1,732
M Barrow: Joint Director: Health and Social Care (1)	£52,699	£53,805
K Anderson: Executive Director: Place	£109,715	£104,690
F Robertson: Executive Director: Children, Young People and Communities	£109,715	£104,690
J Tranent: Chief Officer: Children's Services, Partnerships and Communities (Chief Social Work Officer)	£92,738	£89,022
A Turpie: Legal Services Manager (Monitoring Officer)	£70,312	£65,776
Part-Year		
G Fairley: Chief Officer: Corporate Solutions (S95 Officer) (2)	£59,479	£88,522
D Gladwin: Chief Financial Officer (S95 Officer) (3)	£81,928	n/a
Total	£705,133	£627,999

Notes

- (1) Post joint funded with NHS Lothian, M Barrow Full time Equivalent £105,397;
- (2) G Fairley in post Apr 22 – Oct 22, FYE £88,322;
- (3) D Gladwin Acting up 50% in Post between Oct 22 – Mar 23, FYE £88,322. This figure also includes salary for his substantive post.

Subsidiary Entities

None of our subsidiaries have remunerated employees.

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 2022/23	Contribution Rate
On earnings up to and including £23,000	5.5%
On earnings above £23,001 and up to £28,100	7.25%
On earnings above £28,101 and up to £38,600	8.5%
On earnings above £38,601 and up to £51,400	9.5%
On earnings above £51,401	12%

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

Time Period	Pension Benefit	Pension Benefit	Lump Sum Basis
	Accrual Basis	Accrual Rate	
From 1 April 2015	Career Average	1/49 th pensionable pay each year	n/a
From 1 April 2009 to 31 March 2015	Final Salary	1/60 th pensionable pay each year	n/a
Prior to 1 April 2009	Final Salary	1/80 th pensionable pay each year	3/80 th 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 2023 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

Councillor Name and Responsibility	Year to 31 Mar 2023	Year to 31 Mar 2022
Senior Councillor (May 22-Mar 23) post-election		
K Parry: Council Leader (1)	£6,822	n/a
D McCall: Provost (2)	£5,274	n/a
D Virgo: Group Leader (3)	£4,368	n/a
D Alexander: Cabinet Member (3,4)	£631	n/a
D Bowen: Cabinet Member (3,5)	£4,388	n/a
E Scott: Cabinet Member (3,5)	£4,388	n/a
S McKenzie: Cabinet Member (3,5)	£4,809	n/a
Senior Councillor (Apr 22-Mar 23)		
R Imrie: Cabinet Member (3)	£4,883	£5,163
C Cassidy: Depute Leader and Group Leader (3)	£4,915	£1,344
Senior Councillor (Apr-May 22) pre-election		
S Curran: Cabinet Member (3)	£829	£5,163
J Hackett: Cabinet Member (3)	£526	£5,163
Total	£41,833	£16,833

Notes

- (1) FYE of Council Leader £7,242;
- (2) FYE of Provost £5,432;
- (3) FYE of Senior Councillor £4,888, C Cassidy due to holding Group Leader Role between Apr-May 22;
- (4) Opted out of pension scheme May 2022;
- (5) Less than two years' service therefore no pension liability which would subsequently be reflected in the accrued benefits table below.

Senior Councillors Accrued Pension Benefits

	Pension at 31 March 2023	Lump Sum at 31 March 2023	Pension Difference from 31 March 2022	Lump Sum Difference from 31 March 2022
Senior Councillor	£000	£000	£000	£000
K Perry	4	0	0	0
D McCall	3	0	0	0
D Alexander	2	0	0	0
C Cassidy	3	0	1	0
R Imrie	7	2	1	0
S Curran	3	0	1	0
J Hackett	2	0	0	0
Total	24	2	3	0

The pension entitlements for Senior Employees for the year to 31 March 2023 are shown in the tables below, together with the contribution made by the Council to each Senior Employees (as defined in the regulations) pension during the year.

Senior Employees In-Year Pension Contributions

Senior Employee Name and Responsibility	Year to 31 March 2023	Year to 31 March 2022
Full Year (Apr 22-Mar 23)		
G Vickers: Chief Executive	£28,537	£26,971
M Barrow: Joint Director: Health and Social Care (1)	£3,097	£0
K Anderson: Executive Director: Place	£24,357	£23,240
F Robertson: Executive Director: Children, Young People and Communities	£24,357	£23,240
J Tranent: Chief Officer: Children's Services, Partnerships and Communities (Chief Social Work Officer)	£20,588	£19,646
A Turpie: Legal Services Manager (Monitoring Officer)	£15,609	£14,601
Part-Year		
G Fairley: Chief Officer: Corporate Solutions (S95 Officer)	£13,153	£19,651
D Gladwin: Chief Financial Officer (S95 Officer)	£18,188	n/a
Total	£147,886	£127,349

Notes

- 1 Post joint funded with NHS Lothian, M Barrow Full time Equivalent £6,194.

Senior Employees Accrued Pension Benefits

	Pension at 31 March 2023	Lump Sum at 31 March 2023	Pension Difference from 31 March 2022	Lump Sum Difference from 31 March 2022
Senior Employee	£000	£000	£000	£000
G Vickers	19	0	4	0
M Barrow	9	19	(12)	(35)
K Anderson	65	109	6	5
F Robertson	13	0	3	0
G Fairley	50	85	1	0
D Gladwin	38	51	0	0
J Tranent	38	43	4	2
A Turpie	38	58	4	3
Total	270	365	10	(25)

All senior employees (as defined in the regulations) shown in the tables above except M Barrow are members of the Local Government Pension Scheme. M Barrow is employed by NHS Lothian and is a

member of the NHS pension scheme. The pension figures shown relate to the benefits accrued as a consequence of total local government service, not solely on the current appointment.

Remuneration of Other Employees by Pay Bands

The Regulations require the Remuneration Report to provide information on the number of persons whose remuneration was £50,000 or above, this information is detailed in bands of £5,000 in the table below:

Total Employees 2021/22	Remuneration Band	Non-Teaching Employees 2022/23	Teaching Employees 2022/23	Total Employees 2022/23
86	£50,000-£54,999	28	51	79
73	£55,000-£59,999	14	78	92
24	£60,000-£64,999	13	33	46
20	£65,000-£69,999	7	13	20
4	£70,000-£74,999	6	5	11
4	£75,000-£79,999	2	2	4
1	£80,000-£84,999	0	2	2
5	£85,000-£89,999	1	2	3
0	£90,000-£94,999	4	0	4
1	£95,000-£99,999	0	2	2
2	£100,000-£104,999	0	0	0
0	£105,000-£109,999	2	0	2
1	£120,000-£124,999	0	0	0
0	£130,000-£134,999	1	0	1
221	Total	78	188	266

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 2021/22	Total Cost 2021/22 £000	Remuneration Band	Total Employees 2022/23	Total Cost 2022/23 £000
0	0	£0-£19,999	0	0
2	84	£20,000 +	0	0
2	84	Total	0	0

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's website: [Trade union facility time | Midlothian Council](#)

For the reporting year 2022/23, 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	£230,990
Total Pay Bill	£180,075,218
Percentage total	0.13%

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

Councillor Kelly Parry
Leader of the Council

Dr Grace Vickers
Chief Executive

Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of Midlothian Council and its group for the year ended 31 March 2023 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement, the council-only Housing Revenue Account, the Council Tax Income Account, and the Non-Domestic Rate Account and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the 2022/23 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the state of affairs of the council and its group as at 31 March 2023 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 5 June 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the council and its group in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

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

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant

doubt on the ability of the council and its group to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the current or future financial sustainability of the council and its group. However, I report on the council's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

Responsibilities of the Chief Financial Officer and the audit committee for the financial statements

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

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the ability of the council and its group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the operations of the council and its group.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003 are significant in the context of the council and its group;
- inquiring of the Chief Financial Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the council and its group;

- inquiring of the Chief Financial Officer concerning the policies and procedures of the councils and its group regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Reporting on other requirements

Opinion prescribed by the Accounts Commission on the audited parts of the Remuneration Report

I have audited the parts of the Remuneration Report described as audited. In my opinion, the audited parts of the Remuneration Report have been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

Other information

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

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

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management

Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

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

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited parts of the Remuneration Report are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

[Signature]

Claire Gardiner CPFA
Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Principal Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2023 and its cash flows. The annual accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (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 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 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 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 Council 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 from 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 & Expenditure Statement

2021/22					2022/23				
Gross Expenditure	Gross Income	Net Expenditure or (Income)	Group Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure or (Income)	Group Net Expenditure	
£000	£000	£000	£000	Service	£000	£000	£000	£000	Notes
1,963	(2)	1,961	1,961	Management and Members	2,121	(23)	2,098	2,098	EFA
25,089	(2,005)	23,084	23,084	Children's Services, Partnerships and Communities	22,014	(3,248)	18,766	18,766	EFA
143,474	(19,855)	123,619	123,619	Education	159,645	(19,994)	139,651	139,651	EFA
4,689	(3,152)	1,537	1,537	Adult Health and Social Care – Non-Delegated	7,464	(11,493)	(4,029)	(4,029)	EFA
125,635	(71,305)	54,330	54,330	Midlothian Integrated Joint Board	140,264	(80,080)	60,184	60,184	EFA
77,816	(28,779)	49,037	49,037	Place	85,697	(35,148)	50,549	50,549	EFA
37,946	(24,170)	13,776	13,776	Corporate Solutions	41,707	(25,298)	16,409	16,409	EFA
(37,864)	(30,274)	(68,138)	(68,138)	Housing Revenue Account	45,176	(30,863)	14,313	14,313	EFA
571	0	571	571	Lothian Valuation Joint Board	565	0	565	565	EFA
706	0	706	706	Central Costs	294	0	294	294	EFA
880	0	880	882	Non- Distributable Costs	762	0	762	689	EFA
380,905	(179,542)	201,363	201,365	Cost of Services	505,709	(206,147)	299,562	299,489	
		0	(4,302)	Share of Operating results of Associates and Joint Ventures			0	5,738	38
		5,367	5,367	Other Operating (Income) or Expenditure			338	338	9
		17,868	17,868	Financing and Investment Income and Expenditure			12,568	12,568	10
		(260,714)	(260,714)	Taxation and Non-Specific Grant Income			(276,492)	(276,492)	11
		(36,116)	(40,416)	(Surplus) or Deficit on Provision of Services			35,976	41,641	13
		(65,853)	(65,853)	(Surplus) or Deficit on revaluation of Property, Plant and Equipment assets			(63,840)	(63,840)	
		(111,171)	(111,171)	Re-measurement of the net defined benefit liability/(asset)			(66,774)	(66,774)	
		2,678	1,701	Other (Gains) / Losses			794	(652)	
		(174,346)	(175,323)	Other Comprehensive (Income) and Expenditure			(129,820)	(131,266)	
		(210,462)	(215,739)	Total Comprehensive (Income) and Expenditure			(93,844)	(89,625)	

Group and Council Movement in Reserves Statement

	General Fund	Housing Revenue Account	Capital Fund	Repairs & Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates, Subsidiaries & Joint Ventures	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2022	(32,432)	(28,084)	(22,178)	(3,718)	(86,412)	(660,028)	(746,440)	(11,203)	(757,643)
Movement between Lothian Valuation Joint Board 2021/22 Unaudited and Audited Accounts	0	0	0	0	0	0	0	36	36
Revised Balance 31 March 2022	(32,432)	(28,084)	(22,178)	(3,718)	(86,412)	(660,028)	(746,440)	(11,167)	(757,607)
Movement in Reserves during 2022/23									
Total Comprehensive Expenditure and Income	15,518	20,458	2,071	0	38,047	(131,891)	(93,844)	4,219	(89,625)
Adjustments between accounting basis and funding basis under regulations (Note 7)	(16,400)	(26,586)	0	0	(42,986)	42,986	0	0	0
Transfers to/(from) other statutory reserves	(1,649)	2,069	0	(420)	0	0	0	0	0
(Increase)/Decrease in year	(2,531)	(4,059)	2,071	(420)	(4,939)	(88,905)	(93,844)	4,219	(89,625)
Balance at 31 March 2023 Carried Forward	(34,963)	(32,143)	(20,107)	(4,138)	(91,351)	(748,933)	(840,284)	(6,948)	(847,232)

	General Fund	Housing Revenue Account	Capital Fund	Repairs & Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates, Subsidiaries & Joint Ventures	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2021	(29,672)	(48,385)	(24,158)	(3,897)	(106,112)	(429,866)	(535,978)	(5,909)	(541,887)
Movement between Lothian Valuation Joint Board 2020/21 Unaudited and Audited Accounts	0	0	0	0	0	0	0	(17)	(17)
Revised Balance 31 March 2021	(29,672)	(48,385)	(24,158)	(3,897)	(106,112)	(429,866)	(535,978)	(5,926)	(541,904)
Movement in Reserves during 2021/22									
Total Comprehensive Expenditure and Income	25,583	(61,700)	1,980	0	(34,137)	(176,325)	(210,462)	(5,277)	(215,739)
Adjustments between accounting basis and funding basis under regulations (Note 7)	(28,164)	82,001	0	0	53,837	(53,837)	0	0	0
Transfers to/(from) other statutory reserves	(179)	0	0	179	0	0	0	0	0
(Increase)/Decrease in year	(2,760)	20,301	1,980	179	19,700	(230,162)	(210,462)	(5,277)	(215,739)
Balance at 31 March 2022 Carried Forward	(32,432)	(28,084)	(22,178)	(3,718)	(86,412)	(660,028)	(746,440)	(11,203)	(757,643)

Group and Council Balance Sheet

31 Mar 22	31 Mar 22		31 Mar 23	31 Mar 23	
Midlothian Council	Group		Midlothian Council	Group	
£000	£000		£000	£000	Notes
1,080,738	1,080,738	Property, Plant and Equipment	1,155,972	1,155,972	14
31,375	31,375	Infrastructure Assets	34,819	34,819	15
329	329	Heritage Assets	458	458	16
348	348	Intangible Assets	202	202	17
3,767	3,718	Long-term Debtors	4,190	4,137	18/19
8,508	8,508	Long-term Investments	11,693	6,082	19
0	11,167	Share of net assets of associates and joint ventures	0	12,450	38
1,125,065	1,136,183	Long-term Assets	1,207,334	1,214,120	
43,236	43,236	Short-term Deposits (1)	20,122	20,122	19
1,480	1,480	Assets held for Sale	1,080	1,080	21
983	983	Inventories	1,023	1,023	22
36,681	36,732	Short-term Debtors	40,811	40,861	19/23
109,975	109,975	Cash and Cash Equivalents (1)	95,654	95,654	24
192,355	192,406	Current Assets	158,690	158,740	
(3,865)	(3,865)	Short-term Borrowing	(3,195)	(3,195)	19
(53,496)	(53,462)	Short-term Creditors	(58,546)	(58,434)	19/25
(1,231)	(1,231)	Provisions	(1,239)	(1,239)	26
(43,432)	(43,432)	Grants Received in Advance	(44,731)	(44,731)	27
(102,024)	(101,990)	Current Liabilities	(107,711)	(107,599)	
(322,365)	(322,365)	Long-term Borrowing	(321,490)	(321,490)	19
(92,431)	(92,431)	Other Long-term Liabilities (PPP Contracts)	(88,739)	(88,739)	19/33
(54,160)	(54,160)	Other Long-term Liabilities (Pensions)	(7,800)	(7,800)	34/35
(468,956)	(468,956)	Long-term Liabilities	(418,029)	(418,029)	
746,440	757,643	Net Assets	840,284	847,232	
86,412	97,443	Usable Reserves	91,351	98,293	28
660,028	660,200	Unusable Reserves	748,933	748,939	29
746,440	757,643	Total Reserves	840,284	847,232	

(1) In 2021/22 there was a misclassification of £50.214 million in short-term investments which should have been reflected in Cash and Cash Equivalents.

The unaudited accounts were authorised for issue on 26 June 2023 and the audited accounts were authorised for issue on 30 October 2023.

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 2023, and its income and expenditure for the year ended 31 March 2023.

David Gladwin
Chief Financial Officer

Group and Council Cash Flow Statement

2021/22	2021/22		2022/23	2022/23
Midlothian Council	Group		Midlothian Council	Group
£000	£000		£000	£000
36,116	40,416	Net Surplus or (Deficit) on the Provision of Services	(35,976)	(41,641)
		Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements		
37,793	37,793	Depreciation	41,639	41,639
(62,407)	(62,407)	Impairment and downward revaluations	17,379	17,379
327	327	Amortisation	171	171
(5,636)	(5,588)	(Increase)/decrease in debtors	(7,811)	(7,758)
7,967	7,933	Increase/(decrease) in creditors	2,372	2,261
(45)	(45)	(Increase)/decrease in inventories	(40)	(40)
24,301	24,301	Movement in pension liability	20,414	20,414
5,993	5,993	Carrying amount of non-current assets sold or derecognised	1,158	1,158
499	(3,815)	Other non-cash items charged to the net surplus or deficit on the provision of services	(2,071)	3,652
8,792	4,492		73,211	78,876
		Adjust for Items included in the Net Surplus or Deficit that are Investing and Financing Activities		
74,985	74,985	Proceeds from short-term and long-term Deposits	225,900	225,900
(626)	(626)	Sale of property, plant and equipment and intangible assets	(991)	(991)
(24,827)	(24,827)	Any other items for which the cash effects are investing or financing cash flows	(27,824)	(27,824)
49,532	49,532		197,085	197,085
58,324	54,024	Net Cash Flows from Operating Activities	270,296	275,961
		Investing Activities		
(62,914)	(62,914)	Purchase of property, plant and equipment and intangible assets	(72,229)	(72,229)
(46,495)	(46,495)	Purchase of short-term and long-term Deposits	(205,015)	(205,015)
(495)	(495)	Other payments for investing activities	0	0
626	626	Proceeds from the sale of property, plant and equipment and intangible assets	991	991
26,346	26,346	Other receipts from investing activities	32,455	32,455
(82,932)	(82,932)	Net Cash Flows from Investing Activities	(243,798)	(243,798)
		Financing Activities		
50,000	50,000	Cash receipts of short- and long-term borrowing	0	0
(3,335)	(3,335)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance-sheet PPP contracts	(3,484)	(3,484)
144	144	Other Receipts from Financing Activities	159	159
(1,524)	(1,524)	Repayments of short- and long-term borrowing	(1,518)	(1,518)
45,285	45,285	Net Cash Flows from Financing Activities	(4,843)	(4,843)
56,793	56,793	Net Increase or Decrease in Cash and Cash Equivalents	(14,321)	(14,321)
53,182	53,182	Cash and Cash Equivalents at 1 April	109,975	109,975
109,975	109,975	Cash and Cash Equivalents at 31 March (Note 24) (1)	95,654	95,654

1. In 2021/22 there was a misclassification of £50.214 million in short-term investments which should have been reflected in Cash and Cash Equivalents.

The cash flows for operating activities include the following items:

£000	£000	Cash Flow Statement: Interest Paid and Received	£000	£000
1,925	1,925	Interest Received	3,161	3,161
(16,780)	(16,780)	Interest Paid	(15,269)	(15,269)
0	0	Dividends Received	0	0

Expenditure and Funding Analysis

This Expenditure and Funding Analysis 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 are presented more fully in the Comprehensive Income and Expenditure Statement.

2021/22				2022/23		
Net expenditure chargeable to the General Fund and HRA balances	Adjustments (note 6)	Net expenditure in the CIES (note 13)		Net expenditure chargeable to the General Fund and HRA balances	Adjustments (note 6)	Net expenditure in the CIES (note 13)
£000	£000	£000	Service	£000	£000	£000
1,851	110	1,961	Management & Members	1,968	130	2,098
21,870	1,214	23,084	Children's Services, Partnerships & Communities	18,025	741	18,766
94,475	29,144	123,619	Education	110,003	29,648	139,651
1,748	(211)	1,537	Adult Health & Social Care –Non-Delegated	(4,821)	792	(4,029)
50,598	3,732	54,330	Midlothian Integrated Joint Board	56,612	3,572	60,184
34,701	14,336	49,037	Place	35,756	14,793	50,549
13,973	(197)	13,776	Corporate Solutions	18,411	(2,002)	16,409
(16,593)	(51,545)	(68,138)	Housing Revenue Account	(15,957)	30,270	14,313
571	0	571	Joint Boards	565	0	565
660	46	706	Central Costs	210	84	294
906	(26)	880	Non-Distributable Costs	773	(11)	762
204,760	(3,397)	201,363	Net Cost of Services	221,545	78,017	299,562
(212,261)	(25,218)	(237,479)	Other Income and Expenditure	(228,555)	(35,031)	(263,586)
(7,501)	(28,615)	(36,116)	(Surplus) or Deficit	(7,010)	42,986	35,976
(78,058)			Opening General Fund and HRA Balance	(60,516)		
(17,541)			Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in year	(7,010)		
0			Transfer to/from Other Statutory Reserves	420		
(60,517)			Closing General Fund and HRA Balance at 31 March*	(67,106)		

*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 Annual Accounts for 2022/23 have been prepared on a going concern basis. The concept of a going concern assumes that the Council's functions and services will continue in operational existence for the foreseeable future. The provisions in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. The provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their annual accounts on a going concern basis of accounting. In accordance with the CIPFA Code of Local Government Accounting (2022/23), the Council is required to prepare its annual accounts 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 statement of accounts summarises the Council's transactions for the 2022/23 financial year and its position for the year-end of 31 March 2023. 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 2022/23, 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 historical 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 deposits 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 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 and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid deposits that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of 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 year 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 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, equal to an amount calculated on a prudent basis determined by the Council in accordance with the Statutory Repayment of Loans Fund Advances. This is known as the Loans Fund Principal Repayment. Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by the Loans Fund Principal Repayments 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 flexible working 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 (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end that employees can carry forward into the next financial year. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account 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 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 appropriate service line in the Comprehensive Income and Expenditure Statement 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 Council are members of two separate pension schemes:

- The Teachers' pension scheme, administered by the Scottish Government;
- The Local Government Pensions Scheme, administered by the City of Edinburgh Council on behalf of Lothian Pension Fund.

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot ordinarily be identified specifically 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 services line in the Comprehensive Income and Expenditure Statement is charged with the employer's contributions payable to the Teachers' Pensions in the year.

The Local Government Pension Scheme

The Local Government Pension 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 projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate as advised by the actuary, Hymans Roberson LLP.

The assets of Lothian Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- **Quoted securities** – current bid price;

- **Unquoted securities** – professional estimate;
- **Unitised securities** – current bid price;
- **Property** – market value.

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

Service cost comprising:

- **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 as a result of a scheme amendment or curtailment 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 Council** – the change during the period in the net defined 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.

Re-measurements 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 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 pensions reserve to remove the notional debits and credits for retirement 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. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Pension Net Asset Restriction Calculation

The actuary has calculated the Council's IAS 19 defined benefit surplus for 2022/23 to be £188.463 million as detailed in **Note 35** to the accounts. IAS 19 states that when an entity has a surplus in the defined benefit plan it should measure the net defined benefit of the asset as the lower of:

- The surplus in the defined benefit plan, and
- The asset ceiling, which the actuary has calculated as the present value of any economic benefits available in the form of reductions in future contributions to the plan.

For IFRIC 14 purposes, the actuary has calculated the net present value of the future contributions which exceeds the value of the future service costs resulting in a negative contribution. As a result of this calculation IFRIC 14 advises that no defined benefit plan asset should be recognised on the Council's Balance Sheet and there is no requirement to recognise the difference as a liability. The Council therefore has reported no long-term asset or long-term liability for pensions in 2022/23.

Discretionary Benefits

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

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date and the date when the statement of accounts is 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 statement of accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where such 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 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 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 interest charged to the CIES is the amount payable for the year according to the loan agreement.

Where 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 the financial assets and their cash flow characteristics. The Council holds financial assets measured at:

- Amortised cost; and
- Fair value through other comprehensive income (FVOCI).

The Council'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 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 a financial asset are credited or debited to the financing and investment income and expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all of 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 Council.

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 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 Measurement 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;

- **Other instruments with fixed determinable payments** – discounted cash flow analysis.

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 Council can access at the measurement date;
- **Level 2 inputs** – inputs other than quoted prices included in 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 on 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.

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

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

ix. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations 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 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. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income and expenditure (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 the 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:

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

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 the surplus or deficit on the provision of services where they arise from the reversal of a loss previously charged to the service.

Where decreases in value 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 (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 CIES.

Where an impairment loss is subsequently reversed, the reversal is credited to the Revaluation Reserve or the relevant service line(s) in the CIES, 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).

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 current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of the asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure Line in the CIES. Gains in fair value are recognised only up to the amount of any previously recognised losses in the Surplus or Deficit on the 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. Infrastructure Assets

More information on the accounting for and disclosure around infrastructure assets held by the Council can be found at **note 15**.

xvii. Public Private Partnership (PPP) and Similar Contracts

PPP and similar 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 Comprehensive Income and Expenditure Statement (CIES);
- **Finance Cost** – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES, the interest charges are as follows:
 - Dalkeith Schools - 9.69%;
 - Midlothian Primary Schools - 7.29%;
 - Newbattle Community Campus - 5.06%;
 - Residual Waste Treatment Plant, Millerhill – 15.43%;

- **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;
- **Payment towards liability** – 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.

xviii. 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. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles 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.

xix. 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.

xx. 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 Comprehensive Income and Expenditure Statement 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.

xxi. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

xxii. Fair Value Measurement of Non-financial Assets

The Council measures 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, 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 highest and best 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 Council 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 2023/24 code.

- Definition of Accounting Estimates (Amendments to IAS 8);
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2);
- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12);
- Updating a reference to the Conceptual Framework (Amendments to IFRS 3).

The changes will be effective from the 1st April 2023 and none are expected to have a material impact on the Council's financial statements.

3. Critical judgements in Applying Accounting Policies

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

- **Uncertainty over future funding** - There is a high degree of uncertainty around future levels of funding for local government, which may significantly impact the Council's ability to maintain its property, plant and equipment. The council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a reduction in funding and subsequent required changes to investment and capital strategies
- **Public-Private Partnerships (PPP) and similar type contracts** - The Council has entered into PPP and similar type contracts for the provision of educational buildings and waste facilities as detailed in **Note 33**. For each of these contracts the Council has considered the tests under IFRIC 12 and concluded the following:

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

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

The Council has therefore recognised assets in relation to PPP and similar type contracts on the council's balance sheet at a net book value of £195.625 million, with a corresponding liability in relation to future payments to be made under the scheme of £92.432 million.

- **Associates** - The Valuation Joint Board is included within the group accounts under the wider definition of an "associate" although the council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements in place whereby the Council provides £0.565 million annually, and as such is considered to hold significant influence. Details of the impact on the Group accounts is provided in **Note 38**.

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. The assumptions and other sources of estimation uncertainty disclosed below relate to the estimates that require the Council's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex. As a result, balances cannot be determined with certainty and actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet as at 31 March 2023 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Property, Plant and Equipment

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>The valuation of the Council's property, plant and equipment which are subject to revaluation are subject to significant estimation due to several factors, including ongoing changes to estimates around the costs of replacing existing assets, the market value fluctuation of comparable assets used for valuation, the current condition and future maintenance costs of assets, changes to regulatory standards and the remaining useful economic lives of the assets. Given the material nature of the Council's assets, there is a high likelihood that changes in these estimates will result in material changes in the valuation of assets on the balance sheet. The total value of the Council's assets at 31 March 2023 is outlined and broken down by asset category at note 14.</p> <p>2022/23 Revaluations</p> <p>In 2022/23, revaluations were undertaken for the following assets:</p> <p>31 March - Housing stock discount factor, schools, residential social care properties, offices and commercial properties. The housing assets were revalued on a EUV-SH basis and totalled £502.362 million and the schools were revalued on a DRC basis and totalled schools £447.419 million, residential social care properties were revalued on a mix of market value and DRC basis and totalled £19.904 million, offices and commercial properties were valued on a market value basis and totalled £36.867 million with a valuation movement of £(21.270) million for housing, £35.071 million for schools, £2.497 million for residential and social care properties and £5.446 million for offices and commercial properties (from previous valuation (4.06%) for housing, 8.54% for schools, 14.96 % for residential and social care properties, 17.36% for offices and commercial properties).</p> <p>The changes in valuation in assets in 2022/23, compared to 2021/22, represent updated information around the assets since the most recent full valuation, in particular the cost of replacing assets based on indices for schools, the changes in adjustments for social rent discounts for housing stock, updating housing market information, and updated information on the indices used to value residential and social care properties.</p> <p>Ongoing assessment of asset valuation</p> <p>In addition to full valuations of property, plant and equipment on a rolling basis over a five year period, the council assesses all assets to ensure there are no material changes that should drive an earlier valuation, to ensure that, in</p>	<p>The net book value of all council property, plant and equipment subject to revaluation through the 5 year revaluation cycle is £1.038.04 billion. Assets revalued in 2022/23 totalled £466.841 million before revaluation.</p> <p>The impact of a 5% change in valuation of these would be £26.210 million, either resulting in an increase or decrease in the Council's revaluation reserve or an additional impairment charge. There would be no impact on the Council's general fund.</p> <p>Given the wide ranging nature of the assets under revaluation, as well as the differing and overlapping estimates involved in the valuations, it is not possible for management to provide an expected range of estimate outcomes going forward. However, given the experience in past years and materiality of the asset values, it is expected that these balances will continue to be subject to change as estimates are updated annually.</p>

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>line with the CIPFA code, assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. The council's Corporate Estates Manager has determined in his professional opinion that, at 31 March 2023, due to the inflationary impact on School indices both High Schools and Primary Schools were subject to early revaluation. The council has also continued to assess the valuation of its asset base after the financial year end to ensure new information does not indicate a change in valuation at the balance sheet date.</p> <p>Assets are depreciated over useful lives that are dependent on several assumptions including the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets.</p>	<p>If the useful life of the asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £7.056m for every year that useful lives had to be reduced.</p>

Pension Obligation

Uncertainties	Effect if Actual Results Differ from Assumptions
<p>Estimation of the net obligation to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied.</p> <p>The actuarial inputs into the pension obligation valuation are subject to annual review, and have a significant impact on the potential valuation. Historically it is common for small changes in the discount rate, salary assumption rate and pension rate to have material impacts on the year-end valuations on a year to year basis. We have outlined the potential impact of future changes below. The pension asset at 31 March 2023 following the updated actuarial valuation was £188.463 million, a gain from a liability to an asset on the balance sheet of £242.673 million from 31 March 2022. This was mainly driven by a 2.05% increase in the discount rate, which has served to reduce the employer's obligations leading to a gain on the balance sheet.</p> <p>Given the history of significant changes to pension obligation valuations in the past, the ongoing sensitivity to future changes, and the requirement to update assumptions annually, the Council expects future liabilities to continue to change significantly going forward.</p> <p>For sensitivity purposes, we estimate that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 4%, approximately £20.409 million. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).</p> <p>More information on the key assumptions used in the actuarial valuation of the estimates is available in note 35 to the accounts, including information on the key assumptions, risks, sensitivities and restrictions on the amount on the</p>	<p>The effects of the net pension obligation of changes in individual assumptions can be measured. For instance, it is estimated that a one year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%. However the assumptions interact in complex ways.</p> <p>During 2022/23 the Council's actuary advised that the net pension's obligation had increased by £242.673 million because of estimates being corrected as a result of experience of £(56.382) million and £299.055 million attributable to updating of the assumptions.</p>

Uncertainties	Effect if Actual Results Differ from Assumptions
balance sheet arising from IFRIC 14. An update is also included in this note on the latest development around several equalisation adjustments to pension obligation which have occurred in LGPS and may continue to materially impact the valuation of the Council's obligation going forward.	

Arrears

Uncertainties	Effect if Actual Results Differ from Assumptions
As at 31 March the Council has Council Tax and Non-Domestic Rates debt due of £45.906 million. Management reviewed this balance at 31 March and determined that an allowance for doubtful debts, detailed in Note 23 , of £41.213 million was appropriate based upon historical assessment of recoverability/review of individual balances and correspondence with third parties at year-end. However, it is recognised that in the current economic climate and taking into account the impact of Covid-19 there is increased uncertainty around the recoverability of debtor balances. Management has continued to review all material outstanding balances at the year-end subsequent to 31 March, and has not determined any further allowance is required based on recovery to date.	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 £0.412 million, 3% an increase of £1.236 million and 5% an increase of £2.061 million.

5. Events after the Reporting Period

The Unaudited Accounts were authorised for issue by the Acting Chief Financial Officer on 26th June 2023. Events taking place after this date are not reflected in the annual financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2023, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis 2022/23

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for pension adjustments	Other Adjustments	Total Adjustments
	£000	£000	£000	£000
Management and Members	0	138	(8)	130
Children's Services, Partnerships & Communities	101	751	(111)	741
Education	16,850	11,269	1,529	29,648
Adult Health and Social Care – Non-Delegated	756	0	36	792
Midlothian Integrated Joint Board	935	2,580	57	3,572
Place	8,446	3,284	3,063	14,793
Corporate Solutions	1,945	566	(4,513)	(2,002)
Housing Revenue Account	30,156	114	0	30,270
Joint Boards	0	0	0	0
Central Costs	84	0	0	84
Non-Distributable Costs	0	0	(11)	(11)
Net Cost of Services	59,273	18,702	42	78,017
Other income and expenditure from the Expenditure and Funding Analysis	(36,732)	1,712	(11)	(35,031)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	22,541	20,414	31	42,986

Adjustments between Funding and Accounting Basis 2021/22

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes	Net change for pension adjustments	Other Adjustments	Total Adjustments
	£000	£000	£000	£000
Management and Members	0	123	(13)	110
Children's Services, Partnerships & Communities	338	830	46	1,214
Education	16,207	12,371	566	29,144
Adult Health and Social Care – Non-Delegated	(248)	0	37	(211)
Midlothian Integrated Joint Board	1,165	2,463	104	3,732
Place	8,458	4,287	1,591	14,336
Corporate Solutions	1,930	604	(2,731)	(197)
Housing Revenue Account	(52,138)	593	0	(51,545)
Joint Boards	0	0	0	0
Central Costs	46	0	0	46
Non-Distributable Costs	0	0	(26)	(26)
Net Cost of Services	(24,242)	21,271	(426)	(3,397)
Other income and expenditure from the Expenditure and Funding Analysis	(28,238)	3,030	(10)	(25,218)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	(52,480)	24,301	(436)	(28,615)

Adjustments for Capital Purposes

This column adds in depreciation, impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets;
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. loans fund repayments 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. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

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 Council 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.

Other Adjustments

Other adjustments between amounts debited/credited to the Comprehensive Income and Expenditure Statement and the amounts payable/receivable to be recognised under statute:

- **For services** – 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;
- **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 the Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Council in the year in accordance with proper accounting practice to arrive at 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 a 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 Council 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) Balance

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.

Adjustments between Accounting Basis and Funding Basis under Regulations	General Fund Reserve	Housing Revenue Account	Total Useable Reserves	Total Unusable Reserves
2022/23	£000	£000	£000	£000
Adjustments to the Revenue Resources				
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>				
• Pensions Costs	(20,290)	(124)	(20,414)	20,414
• Financial Instruments	10	0	10	(10)
• Short-term Accumulated Absences	(42)	0	(42)	42
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure	(29,033)	(30,155)	(59,188)	59,188
Total Adjustments to Revenue Resources	(49,355)	(30,279)	(79,634)	79,634
Adjustments between Revenue and Capital Resources				
Net gain or loss on sale of non-current assets	(338)	0	(338)	338
Statutory provision for the repayment of debt	5,553	3,693	9,246	(9,246)
Net revenue expenditure financed from capital under statute (REFFCUS)	(84)	0	(84)	84
Total Adjustments between Revenue and Capital Resources	5,131	3,693	8,824	(8,824)
Adjustments to Capital Resources				
Application of capital grants to finance capital expenditure	27,824	0	27,824	(27,824)
Total Adjustments to Capital Resources	27,824	0	27,824	(27,824)
Total Adjustments	(16,400)	(26,586)	(42,986)	42,986

Adjustments between Accounting Basis and Funding Basis under Regulations	General Fund Reserve	Housing Revenue Account	Total Useable Reserves	Total Unusable Reserves
2021/22	£000	£000	£000	£000
Adjustments to the Revenue Resources				
<i>Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:</i>				
• Pensions Costs	(23,625)	(676)	(24,301)	24,301
• Financial Instruments	10	0	10	(10)
• Short-term Accumulated Absences	426	0	426	(426)
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure	(27,850)	52,138	24,288	(24,288)
Total Adjustments to Revenue Resources	(51,039)	51,462	423	(423)
Adjustments between Revenue and Capital Resources				
Net gain or loss on sale of non-current assets	(5,236)	(131)	(5,367)	5,367
Statutory provision for the repayment of debt	3,287	5,670	8,957	(8,957)
Net revenue expenditure financed from capital under statute (REFFCUS)	(46)	0	(46)	46
Capital Expenditure Financed from Revenue Balances	43	25,000	25,043	(25,043)
Total Adjustments between Revenue and Capital Resources	(1,952)	30,539	28,587	(28,587)
Adjustments to Capital Resources				
Application of capital grants to finance capital expenditure	24,827	0	24,827	(24,827)
Total Adjustments to Capital Resources	24,827	0	24,827	(24,827)
Total Adjustments	(28,164)	82,001	53,837	(53,837)

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 2022/23.

	Balance at 1 April 2021 £000	Transfers out 2021/22 £000	Transfers in 2021/22 £000	Balance at 31 March 2022 £000	Transfers in 2022/23 £000	Transfers Out 2023/23 £000	Balance at 31 March 2023 £000
Scheme of Devolved Budget Management carry forwards	(23,607)	23,607	(18,800)	(18,800)	(16,012)	18,800	(16,012)
Business Transformation Programme	(1,568)	460	(228)	(1,336)	0	267	(1,069)
Management Policy	(486)	486	(1,123)	(1,123)	0	1123	0
Training Budget	(199)	199	0	0	0	0	0
Set aside to balance 2022/23 Budget	0	0	(5,576)	(5,576)	(1,166)	5,576	(1,166)
Total Earmarked Reserves	(25,860)	24,752	(25,727)	(26,835)	(17,178)	25,766	(18,247)
Vat Claim not yet settled	0	0	0	0	(6,839)	0	(6,839)
Non-Earmarked Reserves	(3,812)	0	(1,785)	(5,597)	(5,704)	1,424	(9,877)
Total General Fund Balance	(29,672)	24,752	(27,512)	(32,432)	(29,721)	27,190	(34,963)

9. Other Operating Income and Expenditure

2021/22 £000	Other Operating Income and Expenditure	2022/23 £000
5,367	(Gains)/Losses on disposal of non-current assets	338
5,367	Total	338

10. Financing and Investment Income and Expenditure

2021/22 £000	Financing and Investment Income and Expenditure	2022/23 £000
16,780	Interest payable and similar charges	15,268
3,030	Net interest on the net defined benefit liability (asset)	1,712
(1,942)	Interest receivable and similar income	(4,412)
17,868	Total	12,568

11. Taxation and Non-Specific Grant Income

2021/22 £000	Taxation and Non-Specific Grant Income	2022/23 £000
50,355	Council Tax Income	53,315
18,838	Non-domestic Rates Income	24,813
166,694	Non-ring-fenced Government Grants	170,540
24,827	Capital Grants and Contributions (<i>note 12</i>)	27,824
260,714	Total	276,492

12. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2022/23.

2021/22 £000	Grant Income	2022/23 £000
	Credited to Taxation and Non-Specific Grant Income and Expenditure:	
6,986	General Capital Grant	7,850
7,708	Affordable Housing Supply Programme	9,822
4,967	Developer Contributions	5,256
689	General Capital Grant – Early Years Childcare	664
2,000	Capital Fund	3000
2,179	Scottish Government Grant - Other	1,017
298	Other Capital Grants and Contributions	215
24,827	Total	27,824
	Credited to Services:	
20,047	Housing Benefit Subsidy	18,172
13,125	Early Years Expansion Grant	11,411
2,691	Unitary Charge Funding	2,951
2,650	Pupil Equity Funding	2,424
0	Unaccompanied Asylum Seeking Children	1,626
1,562	Community Justice Grant	1,407
1,079	South East Improvement Collaborative Grant	1,172
626	Energy Efficient Scotland	937
631	Penicuik Town Hall Improvement	0
444	McMillan Funding for Improving the Cancer Journey (ICJ) Project (1)	599
0	UK Shared Prosperity Funds	563
2,746	Other Entities and Individuals	4,765
45,601	Total	46,027

1. £0.444 million for McMillan Funding reflected in Other Entities and Individuals in 2021/22 Annual Accounts due to being below reporting materiality threshold.

13. Expenditure and Income Analysed by Nature

The Group and Council's expenditure and income, which includes adjustments between the funding and accounting basis, is analysed as follows:

2021/22 £000	Expenditure and Income Analysis	2022/23 £000
	Expenditure	
193,892	Employee Expenses	208,496
215,472	Other Service Expenses	239,147
(24,288)	Depreciation, amortisation and impairment	59,189
15,639	Interest payments	15,268
5,366	Gain/(Loss) on the disposal of non-current assets	338
(4,300)	Share of operating results of associates and joint ventures	5,665
401,781	Total Expenditure	528,103
	Income	
(79,212)	Fees, Charges and Other Service Income	(95,616)
(801)	Interest and Investment Income	(4,412)
(50,354)	Income from council tax	(53,315)
(311,830)	Government Grants and Contributions	(333,119)
(442,197)	Total Income	(486,462)
(40,416)	Total	41,641

14. Property Plant and Equipment

Movements on Balances

Movements in 2022/23	Council Dwellings	Buildings	Land	Vehicles, Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant & Equipment	PPP & Similar Contract Assets *
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2022	501,545	527,035	17,289	45,772	8,604	27,868	1,077	1,129,190	182,967
Additions	18,300	5,677	121	4,798	228	38,157	0	67,281	11
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(2,466)	42,642	247	0	0	0	0	40,423	15,044
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(19,227)	363	37	0	0	0	0	(18,827)	0
De-recognition – Disposals	(206)	(346)	(307)	(1,080)	0	0	0	(1,939)	0
Reclassification of Assets	14,859	787	(7)	0	0	(15,639)	(250)	(250)	0
Balance at 31 March 2023	512,805	576,158	17,380	49,490	8,832	50,386	827	1,215,878	198,022
Accumulated Depreciation and Impairment									
Balance at 1 April 2022	(1,100)	(18,155)	0	(29,159)	(38)	0	0	(48,452)	(1,598)
Depreciation Charge	(11,166)	(22,508)	0	(4,442)	(18)	0	0	(38,134)	(2,870)
Depreciation written out to the Revaluation Reserve	350	23,450	0	0	0	0	0	23,800	2,071
Depreciation written out to the Surplus/Deficit on the Provision of Services	238	1,211	0	0	0	0	0	1,449	0
De-recognition - Disposals	206	200	0	1,025	0	0	0	1,431	0
Balance at 31 March 2023	(11,472)	(15,802)	0	(32,576)	(56)	0	0	(59,906)	(2,397)
Net Book Value									
At 31 March 2023	501,333	560,356	17,380	16,914	8,776	50,386	827	1,155,972	195,625
At 31 March 2022	500,445	508,880	17,289	16,613	8,566	27,868	1,077	1,080,738	181,369

* PPP and Similar Contract Assets included in 'Land' and 'Buildings' Total

Movements in 2021/22	Council Dwellings	Buildings	Land	Vehicles, Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total Property, Plant & Equipment	PPP & Similar Contract Assets *
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2021	414,883	481,643	17,089	37,657	8,204	32,846	1,077	993,399	173,467
Additions	14,015	5,586	17	9,204	91	30,028	0	58,941	95
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10,249	31,374	(12)	0	301	0	0	41,912	9,405
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	42,722	519	(20)	0	8	0	0	43,229	0
De-recognition – Disposals	(246)	(6,083)	(256)	(1,089)	0	0	0	(7,674)	0
Reclassification of Assets	19,922	13,996	471	0	0	(35,006)	0	(617)	0
Balance at 31 March 2022	501,545	527,035	17,289	45,772	8,604	27,868	1,077	1,129,190	182,967
Accumulated Depreciation and Impairment									
Balance at 1 April 2021	(17,910)	(14,299)	0	(27,120)	(170)	0	0	(59,499)	(799)
Depreciation Charge	(9,339)	(21,901)	0	(2,993)	(68)	0	0	(34,301)	(2,712)
Depreciation written out to the Revaluation Reserve	7,278	16,759	0	0	200	0	0	24,237	1,913
Depreciation written out to the Surplus/Deficit on the Provision of Services	18,756	422	0	0	0	0	0	19,178	0
De-recognition - Disposals	115	864	0	954	0	0	0	1,933	0
Balance at 31 March 2022	(1,100)	(18,155)	0	(29,159)	(38)	0	0	(48,452)	(1,598)
Net Book Value									
At 31 March 2022	500,445	508,880	17,289	16,613	8,566	27,868	1,077	1,080,738	181,369
At 31 March 2021	396,973	467,344	17,089	10,537	8,034	32,846	1,077	963,462	172,668

* PPP and Similar Contract Assets included in 'Land' and 'Buildings' Total

Depreciation

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

- **Council Dwellings** – 40 to 60 years;
- **Buildings** – 10 to 60 years;
- **Vehicles, Plant and Equipment** – 5 to 10 years.

Capital Commitments

As at 31 March 2023, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2023/24 and future years budgeted to cost £57.731 million (31 March 2022 £41.193 million). The main contractual commitments are:

Capital Commitments	Original Contractual Commitment £000	Outstanding at 31 March 23 £000
Housing Revenue Account Programme		
• Phase 3/4 New Social Housing: Site 109 Conifer Road, Mayfield	14,770	9,943
• Phase 3/4 New Social Housing: Site 116 Newmills Road, Dalkeith	18,575	2,951
• Phase 3/4 New Social Housing: Site 122 High Street, Bonnyrigg	5,244	5,011
• Phase 3/4 New Social Housing: Site 131 Burnbrae, Hopefield	6,703	2,843
• Phase 3/4 New Social Housing: Site 150 Roslin Expansion (Barrat)	8,290	5,923
• Phase 3/4 New Social Housing: Site 32/34 Newbyres Crescent	15,521	14,286
General Fund		
Woodburn Primary School Extension and Refurbishment	13,340	13,064
Other Capital Commitments	93,679	3,710
Total Contractual Commitment	176,122	57,731

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 2022/23 valuations were undertaken for Housing stock discount factor, schools, residential social care properties, offices and commercial properties. Most asset valuations were based on either a depreciated replacement cost (DRC) basis or market value and resulted in a net upwards revaluation of assets of £46.969 million.

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 valuers have determined in their professional opinion that, at 31 March 2023, due to the inflationary impact on the School indices High Schools and Primary Schools were subject to early revaluation. The Council has continued to assess the valuation of its asset base subsequent to the financial year-end as summarised in **note 4** to these financial statements.

15. Infrastructure Assets

The Council's infrastructure assets have been recorded on the Balance Sheet at depreciated historic cost. A useful life of 15 years is applied to these assets and used in the calculation of the annual depreciation charge, based on the Council's assessment of the average useful economic life of these assets, with the exception of where the useful life is known to be different from this amount as a consequence of a Council decision.

On 29 August 2022 the Scottish Government confirmed in Local Government Finance Circular 09/2022 that it has provided a temporary statutory override to the accounting and disclosure requirements related to infrastructure assets in local government financial statements, whilst more permanent updates are developed within the CIPFA/LASAAC Code of Practice for Local Authority Accounting ("the Code"). The allowed changes are applicable for the 2021/22 financial year through to the 31 March 2024 financial year.

The Council has applied both statutory overrides for infrastructure assets:

- Statutory Override 1: For accounting periods commencing from 1 April 2021 until 31 March 2024 a local authority is not required to report the gross cost and accumulated depreciation for infrastructure assets.
- Statutory Override 2: For accounting periods commencing from 1 April 2010 until 31 March 2024 the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. No subsequent adjustment shall be made to the carrying amount of the asset with respect to that part.

2021/22 £000	Infrastructure Assets	2022/23 £000
29,562	Net carrying amount at 1 April	31,375
(3,488)	Depreciation	(3,501)
5,301	Additions	6,945
31,375	Balance outstanding at 31 March	34,819

16. 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.

2021/22 £000	Heritage Assets Cost or Valuation Movement	2022/23 £000
324	Net Carrying amount at 1 April	329
(3)	Depreciation	(3)
8	Additions	7
0	Revaluations and Restatements	125
329	Net Carrying amount at 31 March	458

17. 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:

2021/22 £000	Intangible Assets Movement in Balances	2022/23 £000
	Balance at start of year:	
2,794	Gross carrying amounts	2,921
(2,246)	Accumulated amortisation	(2,573)
548	Net carrying amount at 1 April	348
127	Additions - Purchases	25
(327)	Amortisation for the period	(171)
348	Net carrying amount at 31 March	202
	Comprising:	
2,921	Gross carrying amounts	2,946
(2,573)	Accumulated amortisation	(2,744)
348	Net carrying amount 31 March	202

18. Long-term Debtors

2021/22 £000	Long-Term Debtors	2022/23 £000
3,717	Prepayment to PPP Contractor	4,138
50	Pacific Shelf	52
3,767	Total Long-Term Debtors	4,190

19. Financial Instruments

Categories of Financial Instruments

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

Financial Assets

31 Mar 2022					31 Mar 2023			
Non-current	Current	Total			Non-current	Current	Total	
£000	£000	£000	Financial Assets	Category	£000	£000	£000	Note
2,032	43,236	45,268	Short/Long-term Deposits (1)	Amortised Cost	0	20,122	20,122	See Below
0	13,136	13,136	Debtors	Amortised Cost	0	36,994	36,994	23
6,476	0	6,476	Long-term investments	Fair Value through Other Comprehensive income	11,693	0	11,693	See Below
8,508	56,372	64,880	Total Financial Assets		11,693	57,116	68,809	
0	23,545	23,545	Debtors not defined as financial instruments		0	3,817	3,817	18 & 23
8,508	79,917	88,425	Total		11,693	60,933	72,626	

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

31 Mar 2022				31 Mar 2023		
Long-term	Short-term	Total		Long-term	Short-term	Total
£000	£000	£000	Deposits	£000	£000	£000
2,032	28,241	30,273	Other Local Authorities	0	0	0
0	14,995	14,995	Commercial Banks/Building Societies	0	20,122	20,122
2,032	43,236	45,268	Total Deposits (1)	0	20,122	20,122

1. In 2021/22 there was a misclassification of £50.214 million in short-term investments which should have been reflected in Cash and Cash Equivalents.

Financial Liabilities

31 Mar 22					31 Mar 23			
Non-current	Current	Total			Non-current	Current	Total	
£000	£000	£000	Financial Liabilities	Category	£000	£000	£000	Note
322,365	3,865	326,230	Borrowings	Amortised Cost	321,490	3,195	324,685	See below
79,817	2,912	82,729	PPP Liability	Amortised Cost	76,699	3,120	79,819	33
12,614	573	13,187	PPP Donated Asset Account Liability	Amortised Cost	12,040	573	12,613	33
0	8,603	8,603	Creditors	Amortised Cost	0	29,623	29,623	25
414,796	15,953	430,749	Total Financial Liabilities		410,229	36,511	446,740	
0	44,893	44,893	Creditors not defined as financial instruments		0	28,923	28,923	25
414,796	60,846	475,642	Total		410,229	65,434	475,663	

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 2022				31 Mar 2023		
Long-term	Short-term	Total		Long-term	Short-term	Total
£000	£000	£000	External Borrowings	£000	£000	£000
284,633	2,662	287,295	PWLB Loans	284,580	2,008	286,588
20,559	284	20,843	Lender Option/Borrower Option (LOBO) Loans	20,549	284	20,833
17,173	919	18,092	Loans from commercial lenders and other local authorities	16,361	903	17,264
322,365	3,865	326,230	Total Borrowings	321,490	3,195	324,685

Loans Fund Deferral of Repayments

Loans Fund Principal repayments were deferred in 2022/23 under the Local Government Finance Circular 5/2022 provisions. The term over which deferred repayments will be repaid are in line with the provisions of the circular, as follows:-

Deferred Principal Repayments – Loans Fund	£000's
Within 1 year	386
Within 2 to 5 Years	940
Within 6 to 10 Years	835
Within 11 to 15 Years	310
Within 16 to 20 Years	339
Total	2,810

Investments Designated at Fair Value through Other Comprehensive Income

Fair value of equity instruments designated at Fair Value through Other Comprehensive Income include the following:

31 Mar 2022 £000	Non-Current Assets (Long-term)	Input Level in Fair Value Hierarchy (see note 1 viii)	31 Mar 2023 £000
4,642	Equity Shareholding in Lothian Buses	Level 2	5,758
324	Subordinated Debt Subscription in Newbattle DBFMCo	Level 3	325
1,510	Midlothian Energy Limited Shareholding	Level 3	5,610
6,476	Total		11,693

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 for the year ended 31 December 2022. The IAS 19 Pension Asset/Liability has now been removed from calculations due to its volatility, as demonstrated in the on-year movement in the transfer to/from reserves figure in the table below. **Note 36** provides more detail on the potential guarantee liability associated with investment.

Year to 31 Dec 21 £000		Year to 31 Dec 22 £000
	Profit/(Loss):	
(7,158)	Profit/(Loss) before taxation	5,978
(3,398)	Taxation	(1,443)
(10,556)	Profit/(Loss) after Tax	4,535
	Other Relevant Financial Information:	
140,631	Revenue	165,844
0	Ordinary Dividend	0
59,574	Transfer to/(from) reserves	(5,271)
84,862	Equity attributable to equity holders (excluding IAS 19 Pension Asset/Liability)	105,277

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.

Midlothian Energy Ltd

In 2021/22, the Council entered into a 50:50 joint venture with Vattenfall Heat UK to create Midlothian Energy Limited, a company set up specifically to generate, distribute and supply energy within Midlothian.

The carrying value of the Council investment in Midlothian Energy Limited represents the funds invested in 2022. The published results for Midlothian Energy Limited for the year ended 31 December 2022 are summarised below.

Year to 31 Dec 21 £000		Year to 31 Dec 22 £000
	Profit/(Loss):	
(1,787)	Profit/(Loss) before taxation	(945)
(0)	Taxation	0
(1,787)	Profit/(Loss) after Tax	(945)
	Other Relevant Financial Information:	
0	Shares Issued During the Period	3,020
(1,787)	Accumulated Losses	(2,752)
(1,787)	Total Equity	268

Income, Expenses, Gains and Losses

2021/22	2021/22		2022/23	2022/23
Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000		Surplus or Deficit on the Provision of Services £000	Other Comprehensive Income and Expenditure £000
		Net gains/losses on:		
(857)	0	Investments in equity instruments designated at fair value through other comprehensive income	1,117	0
(857)	0	Total net gains/(losses)	1,117	0
		Interest Revenue:		
0	1,141	Financial assets measured at amortised cost	0	3,260
0	0	Other financial assets measured at fair value through other comprehensive income	0	0
0	1,141	Total Interest Revenue	0	3,260
0	9,452	Interest Expense	0	9,868
		Fee Expense:		
0	108	Financial assets or financial liabilities that are not at fair value through profit and loss	0	122
0	108	Total Fee Expense	0	122

Fair Values of Assets and Liabilities

Except for the financial assets carried at fair value through other comprehensive income, all other financial liabilities and financial assets held by the Council are carried in the Balance Sheet at amortised cost. The fair values calculated for these instruments are as follows:

31 Mar 22			31 Mar 23	
Carrying Amount	Fair Value (New Loan Rate)		Carrying Amount	Fair Value (New Loan Rate)
£000	£000	Financial Liabilities	£000	£000
287,295	299,145	PWLB Loans (Level 2)	286,588	205,583
20,843	29,781	Lender Option/Borrower Option (LOBO) Loans (Level 2)	20,833	20,282
18,092	18,253	Loans from commercial lenders and other local authorities (Level 2)	17,264	14,716
8,603	8,603	Creditors	29,623	29,623
82,729	82,729	PPP Finance Lease Liability	79,819	79,819
13,187	13,187	PPP Donated Asset Account Liability	12,613	12,613
430,749	451,698	Total Financial Liabilities	446,740	362,636

The fair value for borrowings have been arrived at using a discounted cash flow analysis, with the most significant inputs being the discount rate.

The fair value of borrowing is lower than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is lower than the prevailing rates at balance sheet date. The commitment to pay interest below current market rates reduces the amount the Council would have to pay if the lender requested or agreed to early repayment of the loans.

31 Mar 22			31 Mar 23	
Carrying Amount	Fair Value		Carrying Amount	Fair Value
£000	£000	Financial Assets	£000	£000
45,268	45,269	Short/Long-term Deposits	20,122	20,122
13,136	13,136	Debtors	36,994	36,994
58,404	58,405	Total Financial Assets	57,116	57,116

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

The fair value for financial liabilities and financial assets that are not measured at fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

Financial Assets	Financial Liabilities
- The valuation of fixed term deposits (maturity deposits) is made by comparison of the fixed term deposit with a comparable deposit with the same/similar lender for the remaining period of the deposit.	- No early repayment is recognised.
- The fair value of receivables is taken to be the invoiced or billed amount.	- Estimated ranges of interest rates at 31 March 2023 for loans payable based on new lending rates for equivalent loans at that date.
	- The fair value of payables is taken to be the invoiced or billed amount.

20. 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;
- **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 deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

The risk is minimised through the Council's Treasury Management Strategy, which is set annually and is monitored throughout the year. The strategy 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 £0.013 million (2021/22 £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** – there has been no dividend paid to the Council since 2019 and this situation is expected to continue until 2026;
- **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;

- **Midlothian Energy Ltd** – 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. The Council will continue to review the performance of the company on an annual basis.

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

2021/22 £000	Financial Assets	2022/23 £000
109,976	Less than 3 months	87,228
14,994	3 to 6 months	0
28,242	6 months to 1 year	20,122
2,032	More than 1 year	0
155,244	Total Financial Assets	107,350

Liquidity Risk

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

If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is that loan maturities are spread across financial years to mitigate refinancing risk, through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

2021/22 £000	Financial Liabilities	2022/23 £000
3,865	Less than 1 year	3,195
840	1 to 2 years	1,506
3,587	2 to 5 years	2,832
33,926	5 to 10 years	45,208
43,612	10 to 20 years	32,439
12,794	20 to 30 years	39,904
96,558	30 to 40 years	84,601
127,049	40 to 50 years	110,000
5,000	Greater than 50 years	5,000
327,231	Total Financial Liabilities	324,685

All trade and other payables are due to be paid in less than one year.

Market Risk

Interest Rate Risk

The Council is exposed to interest rate risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council. For instance, a rise in interest rates would have the following effects:

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

- **Borrowings at variable rates** - the interest charged to the surplus or deficit on the provision of services will rise;
- **Borrowings at fixed rates** – the fair value of the liabilities will fall;
- **Deposits at variable rates** - the interest income credited to the surplus or deficit on the provision of services will rise;
- **Deposits at fixed rates** - the fair value of the assets will fall.

Borrowings are not carried at fair value, so normal gains and losses on fixed rate borrowings would not impact on the surplus or deficit on the provision of services of other comprehensive income and expenditure. However, changes in interest payable and receivable on variable rate borrowings and deposits will be posted to the surplus or deficit on the provision of services and affect the General Fund balance.

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

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

According to this assessment strategy, at 31 March 2023, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

2021/22 £000		2022/23 £000
	Impact on Taxpayer and Rent Payers:	
0	Increase on interest payable on variable rate borrowings	0
(1,223)	Increase on interest receivable on variable rate instruments	1,599
(1,223)	Impact on Surplus or Deficit on the Provision of Services	1,599
	Other presentational Changes:	
(60,293)	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	(31,176)

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 19** of the Financial Statements.

Foreign Exchange Risk

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

21. Assets Held for Sale

2021/22 £000	Assets Held For Sale	2022/23 £000
1,254	Balance outstanding at 1 April	1,480
617	Assets newly classified as held for sale	250
(138)	Revaluations and Restatements	0
0	Additions	0
(253)	Assets Sold	(650)
1,480	Balance outstanding at 31 March	1,080

22. Inventories

2021/22 £000	Inventories	2022/23 £000
938	Balance outstanding at 1 April	983
807	Purchases	1123
(762)	Recognised as an expense in the year	(1,083)
983	Balance outstanding at 31 March	1,023

23. Debtors

2021/22 £000	Short-Term Debtors	2022/23 £000
7,276	Central Government Bodies	17,207
6,186	Other Public Sector Bodies	1,538
	Other Entities and Individuals (net of Impairment for bad debts)*:	
9,906	Council Tax and Non-Domestic Rates	9,082
2,334	Rents	3,613
10,979	Other trade debtors	9,371
36,681	Total Short-Term Debtors	40,811

* 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 £41.213 million (2021/22 £39.259 million) and Rents of £2.710 million (2021/22 £2.440 million). For sundry debtors all debts that are over six months past their payment date impairment will be applied of £2.552 million (2021/22 £2.634 million), of which £1.752 million relates to housing benefit overpayments (2021/22 £1,735 million).

24. Cash and Cash Equivalents

The balance of cash and cash equivalents is made up of the following elements:

2021/22 £000	Cash and Cash Equivalents	2022/23 £000
329	Cash held by the Council	408
111,611	Short-term Deposits (1)	95,183
(1,965)	Bank Current Accounts	63
109,975	Total Cash and Cash Equivalents	95,654

(1) In 2021/22 there was a misclassification of £50.214 million in short-term investments which should have been reflected in Cash and Cash Equivalents.

25. Creditors

2021/22 £000	Creditors	2022/23 £000
974	Central Government Bodies	447
13,113	Other Public Sector Bodies	10,124
39,409	Other Entities and Individuals	47,975
53,496	Creditors	58,546

26. Provisions

	Uninsured Losses (1)	Total
	£000	£000
Balance at 1 April 2022	1,231	1,231
New provisions made during the year	729	729
Increase/(decrease) to existing insurance provisions during the year	(44)	(44)
Amounts used during the year	(677)	(677)
Balance at 31 March 2023	1,239	1,239

Notes:

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

27. 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:

2021/22 £000	Grants Received in Advance (Capital Grants)		2022/23 £000
38,663	Balance at 1 April		43,432
	New capital grants received in advance, conditions of use not met:		
0	• Scottish Government Place Based Investment Programme	461	
653	• Scottish Government Town Centre Capital Fund	0	
10,135	• Section 75 contributions from private developers	7,940	
765	• Other Grants Received in Advance	0	8,401
11,553			51,833
(6,784)	Amounts realised to CIES, conditions of use met		(7,102)
43,432	Balance at 31 March		44,731

28. Usable Reserves

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

29. Unusable Reserves

2021/22 £000	Unusable Reserves	2022/23 £000
(272,696)	Revaluation Reserve	(325,527)
(4,292)	Financial Instruments Revaluation Reserve	(5,408)
(447,420)	Capital Adjustment Account	(435,891)
1,660	Financial Instruments Adjustment Account	1,491
54,160	Pensions Reserve	7,800
8,560	Accumulated Absences Account	8,602
(660,028)	Total Unusable Reserves	(748,933)

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.

2021/22 £000	Revaluation Reserve		2022/23 £000
(224,283)	Balance at 1 April		(272,696)
(67,038)	(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services		(69,575)
13,237	Difference between fair value depreciation and historical cost depreciation		16,081
	Amounts written off to the Capital Adjustment Account		
0	Difference between fair value depreciation and historical cost depreciation	0	
5,388	Accumulated (gains)/losses on assets sold or scrapped	663	
5,388	Amount written off to the Capital Adjustment Account		663
(272,696)	Balance at 31 March		(325,527)

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 at measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

- Revalued downwards and the gains are lost;
- Disposed of and the gains are realised.

2021/22 £000	Financial Instruments Revaluation Reserve	2022/23 £000
(5,149)	Balance at 1 April	(4,292)
857	(Upward)/Downward Revaluation of Investments	(1,116)
(4,292)	Balance at 31 March	(5,408)

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 subsequent costs such 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 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, apart from those involving the revaluation reserve.

2021/22 £000	Capital Adjustment Account		2022/23 £000
(352,279)	Balance at 1 April		(447,420)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
24,556	• Charges for depreciation and impairment on non-current assets	25,558	
(61,390)	• Revaluation movements on property, plant and equipment	22,603	
327	• Amortisation of intangible assets	171	
46	• Revenue expenditure funded from capital under statute	84	
5,993	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	1,158	
(30,468)			49,574
(5,388)	Adjusting amounts written out of the Revaluation Reserve		(663)
(35,856)	Net written out amount of the cost of non-current assets consumed in the year		48,911
	Capital financing applied in the year:		
(626)	• Use of capital receipts to finance new capital expenditure	(991)	
(22,221)	• Capital grants and contributions credited to the CIES that have been applied to capital financing	(27,824)	
(8,957)	• Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(7,178)	
(25,043)	• Capital Expenditure Charged against the General Fund and HRA Balances	0	
(1,979)	• Use of Capital Fund Reserve to Finance Capital Expenditure	(1,078)	
(58,826)			(37,071)
(459)	Other movements		(311)
(447,420)	Balance at 31 March		(435,891)

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.

2021/22 £000	Financial Instruments Adjustment Account	2022/23 £000
1,829	Balance at 1 April	1,660
(159)	Premiums incurred in the year	(159)
(10)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in year in accordance with statutory requirements	(10)
1,660	Balance at 31 March	1,491

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 pension reserve mirrors the net pension asset/liability, of which neither is being recognised in 2022/23 as detailed in **Note 35**.

2021/22 £000	Pensions Reserve	2022/23 £000
141,030	Balance at 1 April	54,160
(111,171)	Re-measurements of the net defined benefit liability/(asset)	(255,237)
41,458	Reversal of items relating to net changes for retirement benefits charged to Surplus or Deficit on the Provision of Services in the CIES	39,147
(17,157)	Employers' pension contributions	(18,733)
0	Restriction Adjustment under IFRIC 14	188,463
54,160	Balance at 31 March	7,800

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.

2021/22 £000	Accumulated Absences Account		2022/23 £000
8,986	Balance at 1 April		8,560
(8,986)	Settlement or cancellation of accrual made at the end of the preceding year	(8,560)	
8,560	Amounts accrued at the end of the current year	8,602	
(426)	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		42
8,560	Balance at 31 March		8,602

30. External Audit Costs

The estimated fee payable by the Council to Audit Scotland in respect of the work carried out for external audit services is £0.273 million (2021/22 £0.243) million). Where further additional work is required, fees will be agreed with management and reported to the Audit Committee.

31. Related Parties

The Council is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

The Scottish Government

The Scottish Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides much of its 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). Further information is contained with **Note 11 Taxation and Non-specific Grant Income** and **Note 12 Grant Income** in the Annual Accounts.

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 2022/23 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 2022/23 were declared by nine members:

- With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.146 million;
- With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.869 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.

Officers

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

Other Public Bodies

The Council has a number of joint working arrangements with other local authorities. In 2022/23 payments of £1.988 million were made to other local authorities and income of £0.434 million was received from other local authorities.

Midlothian Integration Joint Board

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 2022/23 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, £1.464 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

The Joint Director of Health and Social Care is employed by NHS Lothian. Midlothian Council is recharged for 50% of the cost of this post. Details are included in the Remuneration Report.

The Council delegated resources totalling £56.612 million to the Midlothian Integration Joint Board in 2022/23. 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 2023 the Council held £7.703 million on behalf of the Board.

Other 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 £0.565 million (2021/22 £0.571 million). There was no balance due to or from the Lothian Valuation Board as at 31 March 2023.

Midlothian Energy Limited was set up in 2021/22 as a 50:50 joint venture with Vattenfall Heat UK to generate, distribute and supply energy. The company has been consolidated into the Group Accounts and details of all other entities in which the Council has significant interest are explained in the Group Accounts in **Note 38**.

32. 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.

2021/22 £000	Capital Expenditure and Capital Financing	2022/23 £000
389,375	Opening Capital Financing Requirement	394,504
	Capital Investment:	
64,241	Property, Plant and Equipment	74,232
8	Assets Held for Sale	0
127	Intangible Assets	26
46	Revenue Expenditure funded by Capital Under Statute	85
0	Public, Private Partnership (PPP)	0
0	Long-term Investments	0
64,422	Total Capital Investment	74,343
	Sources of Finance:	
(31)	Capital Receipts	(3)
(2,000)	Capital Fund Applied	(3,000)
(22,798)	Government Grants and Other Contributions	(24,824)
(25,048)	CFCR	0
(9,416)	Loans fund and PPP Finance lease repayments	(9,558)
(59,293)	Total Sources of Finance	(37,385)
5,129	Increase/(decrease) in Capital Financing Requirement	36,958
394,504	Closing Capital Financing Requirement	431,462

33. 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.

Property, Plant & Equipment

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 in **Note 14**.

Payments

The council makes an agreed payment each year that is increased annually by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year but which is otherwise fixed.

There is also a donated asset account associated with the financing of the Millerhill Residual Waste asset. The recognition of donated asset income is on a flat line basis over the 25 years of the contract.

Payments remaining to be made under these contracts at 31 March 2023 are as follows:

	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000
Dalkeith Schools Campus				
Within 1 Year	1,107	1,820	2,331	5,258
Within 2 to 5 Years	5,605	6,102	9,924	21,631
Within 6 to 10 Years	10,657	3,977	13,866	28,500
Within 11 to 15 Years	1,422	138	1,590	3,150
Total Remaining Contract	18,791	12,037	27,711	58,539

	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000
Midlothian Primary Schools				
Within 1 Year	1,069	1,899	2,318	5,286
Within 2 to 5 Years	5,116	6,758	9,868	21,742
Within 6 to 10 Years	8,795	6,047	13,788	28,630
Within 11 to 15 Years	11,060	2,337	14,007	27,404
Total Remaining Contract	26,040	17,041	39,981	83,062

	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000
Newbattle Community Campus				
Within 1 Year	892	1,518	140	2,550
Within 2 to 5 Years	4,041	5,598	595	10,234
Within 6 to 10 Years	6,313	5,736	831	12,880
Within 11 to 15 Years	8,080	3,969	940	12,989
Within 16 to 20 Years	10,340	1,710	1,063	13,113
Within 21 to 25 Years	354	3	33	390
Total Remaining Contract	30,020	18,534	3,602	52,156

	Donated Asset	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000	£000
Millerhill Residual Waste					
Within 1 Year	573	53	936	1,248	2,810
Within 2 to 5 Years	2,293	210	3,636	5,630	11,769
Within 6 to 10 Years	2,867	416	4,297	7,869	15,449
Within 11 to 15 Years	2,868	1,076	3,655	8,770	16,369
Within 16 to 20 Years	2,866	2,352	2,195	9,996	17,409
Within 21 to 25 Years	1,146	861	128	2,358	4,493
Total Remaining Contract	12,613	4,968	14,847	35,871	68,299

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital

expenditure incurred and interest payable while the capital expenditure remains to be reimbursed. The liability outstanding to be paid to the contractors for capital expenditure incurred is as follows:

2021/22				2022/23		
Liability £000	Donated Asset £000	Total £000		Liability £000	Donated Asset £000	Total £000
85,443	13,760	99,203	Balance Outstanding at 1 April	82,729	13,187	95,916
(2,714)	0	(2,714)	Payments during the year	(2,910)	0	(2,910)
0	(573)	(573)	Other Movements	0	(574)	(574)
82,729	13,187	95,916	Balance at 31 March	79,819	12,613	92,432

2021/22 £000	Included in the Balance Sheet	2022/23 £000
3,485	Current (Short-term Creditors)	3,693
92,431	Non-Current (Other Long-term Liability)	88,739
95,916	Balance at 31 March	92,432

34. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of this Scottish Teachers Superannuation scheme, 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 a 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 2022/23 the Council paid £12.149 million (2021/22 £10.439 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 23% for 2022/23 (2021/22 23%).

The Council 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 35**).

The Council is not liable to the scheme for any other entities' obligations under the plan.

35. Defined Benefit Pension Schemes

As part of the terms and conditions of employment and its officers, the Council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments (for those benefits) and to disclose at the time that 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 Council 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), changes 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 Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Transactions Relating to Post-Employment Benefits

The cost of retirement benefits in the reported cost of services is recognised when they are earned by employees, rather than when the benefits are eventually 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 Housing Revenue Account via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund balance via the Movement in Reserves Statement during the year.

2021/22 £000	Comprehensive Income and Expenditure Statement (CIES)	2022/23 £000
	Cost of services:	
	<i>Service Cost Comprising:</i>	
38,251	Current service cost	37,435
177	Past service cost (including curtailments)	0
	<i>Financing and Investment Income and Expenditure:</i>	
3,030	Net interest expense	1,712
41,458	Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	39,147
	Other Post Employment Benefit charged to the Other Comprehensive Income & Expenditure Statement:	
	<i>Re-measurement of the Net Defined Benefit Liability Comprising:</i>	
(53,864)	Return on plan assets	3,555
(58,077)	Actuarial (gains)/losses arising on changes in financial and demographic assumptions	(108,302)
770	Other	37,973
(111,171)	Total post-employment benefits charged to the Other Comprehensive Income & Expenditure Statement	(66,774)
(69,713)	Total post-employment benefits charged to the CIES	(27,627)

2021/22 £000	Movement in Reserves Statement	2022/23 £000
(41,458)	Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code	(39,147)
17,157	Employers Contributions payable to the scheme	18,733
(24,301)	Total Charged to the Movement in Reserves	(20,414)

Pension Assets and Liabilities Recognised in the Balance Sheet

Net Asset Restriction

The actuary has calculated the Council's IAS 19 defined benefit surplus for 2022/23 to be £188.463 million as detailed in the tables below. IAS 19 states that when an entity has a surplus in the defined benefit plan it should measure the net defined benefit of the asset as the lower of:

- The surplus in the defined benefit plan, and

- The asset ceiling, which the actuary has calculated as the present value of any economic benefits available in the form of reductions in future contributions to the plan.

For IFRIC 14 purposes, the actuary has calculated the net present value of the future contributions of £154.671 million exceeds the value of the future service costs of £143.449 million, a negative contribution. As a result of this calculation IFRIC 14 advises that no defined benefit plan asset should be recognised in the Council's Balance Sheet and there is no requirement to recognise the £11.222 million difference as a liability, however, is required to reflect the liability in relation to present value of unfunded obligations of £7.8 million.

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

2021/22 £000	Pensions Assets and Liabilities Recognised in the Balance Sheet	2022/23 £000
(731,499)	Present value of the defined benefit obligation	(510,236)
677,339	Fair value of Plan Assets	698,699
(54,160)	Net (liability)/asset arising from defined benefit obligation	188,463
0	Restriction Adjustment under IFRIC 14	(196,263)
(54,160)	Revised Net (liability)/asset arising from defined benefit obligation	(7,800)

2021/22 £000	Reconciliation of the present value of the scheme liabilities (defined benefit obligation)	2022/23 £000
747,208	Opening Balance at 1 April	731,499
38,251	Current service cost	37,435
15,196	Interest Cost	20,075
4,358	Contributions by Scheme Participants	4,788
	<i>Re-measurement (gains)/losses</i>	
(58,077)	- Changes in financial and demographic assumptions	(304,565)
770	- Other	37,973
177	Past service cost (including curtailments)	0
(716)	Estimated Unfunded Benefits Paid	(706)
(15,668)	Estimated Benefits Paid	(16,263)
731,499	Closing Balance at 31 March	510,236

2021/22 £000	Reconciliation of the movements in the fair value of scheme assets	2022/23 £000
606,178	Opening fair value of scheme assets	677,339
12,166	Interest Income	18,363
	<i>Re-measurement gains/(losses):</i>	
53,864	- Return on assets excluding amounts included in net interest	(3,555)
0	- Other	0
16,441	Contributions from Employer	18,027
4,358	Contributions from employees into the scheme	4,788
(15,668)	Benefits Paid	(16,263)
716	Contributions in respect of Unfunded Benefits	706
(716)	Unfunded Benefits Paid	(706)
677,339	Closing Balance at 31 March	698,699

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 2023 the asset for Pensions sits at £6.250 million (2021/22 £1.682 million). As a consequence the Council has additional assets arising from the pension surplus 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 Local Government Pension Scheme liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries and estimates for the pension fund are based on the latest full valuation of the scheme as at 31 March 2023.

The significant assumptions used by the actuary have been:

2021/22	Mortality Assumptions	2022/23
	Longevity at 65 for Current Pensioners:	
20.3	- Men (Years)	19.9
23.1	- Women (Years)	22.9
	Longevity at 65 for Future Pensioners:	
21.6	- Men (Years)	21.2
25.0	- Women (Years)	24.7
	Financial Assumptions	
3.20%	Rate of Inflation/increase in pensions	2.95%
3.70%	Rate of increase in salaries	3.45%
2.70%	Rate for discounting scheme liabilities	4.75%
10.8%	Actual Rate of Investment Returns	2.2%

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 23	Approximate % increase to the Employer Obligation	Approximate monetary amount £000
0.1% decrease Real Discount Rate	2%	9,763
1 year increase in member life expectancy	4%	20,409
0.1% increase in the Salary Increase Rate	0%	905
0.1 % increase in the Pension Increase Rate (CPI)	2%	9,003

Local Government Pension Schemes Comprised

2021/22	2021/22			2022/23		2022/23
Fair Value of Scheme Assets	Percentage of Total Assets		Quoted prices in active markets	Quoted prices not in active markets	Total Fair Value of Scheme Assets	Percentage of Total Assets
£000		Pension Fund Assets	£000	£000	£000	
76,112	11%	Cash and Cash Equivalents	32,999	0	32,999	5%
		Equity Instruments:				
83,328	12%	Consumer	85,663	0	85,663	12%
89,643	13%	Manufacturing	96,314	0	96,314	14%
37,393	6%	Energy and Utilities	42,148	0	42,148	6%
39,038	6%	Financial Institutions	42,030	0	42,030	6%
46,919	7%	Health and Care	51,322	0	51,322	7%
30,778	5%	Information Technology	29,018	0	29,018	4%
50,498	7%	Other	47,709	0	47,709	7%
377,597	56%	Sub-total Equity	394,204	0	394,204	56%
		Bonds:				
0	0	Corporate	10,897	0	10,897	2%
59,151	9%	Government	81,001	0	81,001	12%
12,704	2%	Other	14,592	0	14,592	2%
71,855	11%	Sub-total bonds	106,490	0	106,490	16%
		Property:				
35,807	5%	UK	4,682	26,792	31,474	5%
191	0%	Overseas	928	194	1,122	0%
35,998	5%	Sub-total Property	5,610	26,986	32,596	5%
		Investment Trusts and Unit Trusts:				
12,167	2%	Equities	9,302	541	9,843	1%
31,718	5%	Bonds	0	20,230	20,230	3%
68,675	10%	Infrastructure	0	99,578	99,578	14%
112,560	17%	Sub-total Trusts	9,302	120,349	129,651	18%
3,185	0%	Private Equity (all)	437	2,292	2,729	0%
32	0%	Derivatives: Forward Foreign Exchange Contracts	30	0	30	0%
677,339	100%	Total Assets	549,072	149,627	698,699	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 level of 100% of the overall liabilities of the fund in the longer term. Funding levels are monitored on an annual basis. The next triennial valuation will be performed during 2023/24 with results being published by 31 March 2024 and will impact contribution rates from 1 April 2024. The Council anticipates to pay £18.027 million in contributions to the scheme to 31 March 2024.

The weighted average duration of the defined benefit obligation scheme members is 20 years for 2022/23 (20 years 2021/22).

36. Contingent Liabilities

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.

37. Trusts, Bequest, 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:

2021/22 £000	Trusts, Bequests, Common Good and Community Funds	2022/23 £000
8	Dalkeith Common Good Fund	8
2	Penicuik Common Good Fund	2
51	Community Mining Funds	51
24	Other Funds	101
85	Total	162

A further bequest was made during 2022/23 in relation to St David's High School, Dalkeith for £0.075 million, which is the predominant reason for the increase in other funds of £0.077 million during the year. A total £0.100 million (2021/22 £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.

38. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2022/23 (The Code) applies to Local Authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

Valuation of Property, Plant and Equipment

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

Depreciation

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

Goodwill

The Council has acquired its share of the net assets of its associates for nil consideration and no goodwill has been included in the Group Balance Sheet.

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). With the Exception of Midlothian Energy Ltd, whose reporting date is 31 Dec, all entities have the same reporting date as the Council.

Restrictions on the Transfer of Funds

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

	Percentage Share in Entity	Share of Assets	Share of Liabilities	Net Share of Assets	Share of Revenues	Share of (Profit)/Loss
Entity	%	£000	£000	£000	£000	£000
Subsidiaries:						
Trusts, Bequests, Common Good and Community Funds	100	162	(162)	0	77	(77)
Pacific Shelf 826 Ltd	100	0	(53)	(53)	0	4
		162	(215)	(53)	77	(73)
Associates:						
Lothian Valuation Joint Board	9	450	(324)	126	(977)	89
Joint Ventures:						
Midlothian Integration Joint Board	50	6,586	0	6,586	(91,586)	5,170
Midlothian Energy Ltd	50	7,005	(1,267)	5,738	(479)	479
Total Joint Ventures & Associates		14,041	(1,591)	12,450	(93,042)	5,738
Total for Group		14,203	(1,806)	12,397	(92,965)	5,665

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
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
Joint Ventures:		
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
Midlothian Energy Limited	Energy generation, distribution and supply	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.

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.

2021/22 £000	HRA Income and Expenditure Statement		2022/23 £000
	Expenditure		
6,155	Repairs and Maintenance	7,531	
5,575	Supervision and Management	4,948	
(52,138)	Depreciation, impairment and revaluation non-current assets	30,157	
600	Movement in the allowance for bad debtors	270	
1,943	Other Expenditure	2,270	
(37,865)	Total Expenditure		45,176
	Income:		
(29,643)	Dwelling Rents	(30,130)	
(332)	Non-dwelling Rents	(335)	
(292)	Service Charge Income	(364)	
(6)	Other Income	(34)	
(30,273)	Total Income		(30,863)
(68,138)	Net Expenditure or (Income) of HRA services as included in the Comprehensive Income and Expenditure Statement		14,313
250	HRA Share of Corporate and Democratic Core		311
(67,888)	Net (Income)/expenditure for HRA Services		14,624
	HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:		
131	(Gain) or Loss on sale of HRA non-current assets	0	
6,481	Interest payable and similar charges	6,373	
(506)	Interest and investment income	(548)	
82	Net interest on the net defined liability benefit liability (asset)	10	
6,188			5,835
(61,700)	(Surplus)/Deficit for the year on HRA Services		20,459

Movement in depreciation, impairment and revaluation between years is due to the annual calculation of the housing stock value which is measured on the basis of existing use value for social housing (EUV_SH).

Movement in the Housing Revenue Account

2021/22 £000	Movement on the HRA Statement		2022/23 £000
(48,385)	Balance on the HRA at the end of the previous reporting period		(28,084)
(61,700)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		20,459
	Adjustments between accounting basis and funding basis under statute:		
52,138	Depreciation, impairment and revaluation non-current assets	(30,156)	
(131)	Gain or (Loss) on sale of HRA non-current assets	0	
5,670	Loans Fund Principal	3,693	
25,000	Capital Expenditure Charged against the HRA Balance	0	
(676)	Net charges made for retirement benefits in accordance with IAS 19	(124)	
82,001	Total Adjustments between accounting basis and funding basis under statute		(26,587)
0	Transfer to General Fund Reserve		2,069
20,301	(Increase) or Decrease in year on the HRA		(4,059)
(28,084)	Balance on the HRA at the end of the current reporting period		(32,143)

Notes to the Housing Revenue Account

Housing Stock

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

2021/22	Housing Stock	2022/23
1,001	1 Bedroom	1,024
4,009	2 Bedroom	4,062
1,920	3 Bedroom	1,948
322	4 Bedroom	323
10	5/6 Bedroom	11
7,262	Total Housing Stock at 31 March	7,368

This represents an increase in the year of 106 units (2021/22 178), which is represented in the table below:

2021/22	Increase/(decrease) in Housing Stock	2022/23
176	New Build Completions	97
15	Market Purchases of Existing Purchases	28
(12)	Re-purposed units for temporary accommodation	(18)
(1)	Demolition	(1)
178	Total Housing Stock at 31 March	106

Other Information

2021/22 £000	Other Information	2022/23 £000
4,597	Total Rent Arrears	5,490
2,440	Bad Debt Provision	2,710
904	Void Rent Loss (netted against rental income)	896

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 Council.

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.

2021/22 £000	Council Tax Income Account	2022/23 £000
64,045	Gross Council Tax levied and Contributions in Lieu	67,229
	Less:	
(5,053)	Council Tax Reduction Scheme	(5,265)
(6,402)	Other Discounts and Reductions	(6,746)
(2,008)	Write-off of Uncollectable Debts and Allowances for impairment	(2,106)
(227)	Prior year adjustments	204
50,355	Net Council Tax Income transferred to General Fund	53,316

Midlothian Council Tax Charge and Properties by Band

2021/22 Property Numbers	2021/22 £ per Property	Band	2022/23 Property Numbers	2022/23 £ per Property
1	783	A - Disabled	1	801
581	939	A	541	962
8,418	1,096	B	8,016	1,122
8,584	1,252	C	8,376	1,282
5,011	1,409	D	5,044	1,443
4,767	1,851	E	4,892	1,895
3,992	2,290	F	4,218	2,344
2,526	2,759	G	2,706	2,825
171	3,452	H	174	3,534
34,051			33,968	

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

2022/23	A (Disabled)	A	B	C	D	E	F	G	H	Total No of Properties
Number of Properties	0	987	12,672	11,203	5,875	5,520	4,466	2,834	182	43,739
Properties subject to Empty Homes Premium	0	9	66	34	20	20	14	16	2	181
Properties subject to Disabled Relief	2	36	33	(41)	8	(4)	(5)	(27)	(2)	0
Less:										
Exempt Properties	0	80	475	254	103	189	49	20	3	1,173
Properties Entitled to 25% Discounts	0	153	1,547	1,018	452	306	156	75	5	3,712
Properties Entitled to 50% Discounts	0	0	5	5	2	3	1	1	0	17
Properties Entitled to Other Discounts	0	2	28	18	10	6	4	2	0	70
Reduction in Tax Base due to Council Tax Reduction	1	256	2,700	1,525	292	140	47	19	0	4,980
Total Equivalent Properties 2022/23	1	541	8,016	8,376	5,044	4,892	4,218	2,706	174	33,968
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	0	361	6,234	7,446	5,044	6,428	6,855	5,299	427	38,094
Contributions in Lieu - Band D Equivalents										198
Sub-total										38,292
Less Bad Debt Provision at 3.5%										(1,460)
Total Council Tax Base										36,832

2021/22	A (Disabled)	A	B	C	D	E	F	G	H	Total No of Properties
Band D Equivalent Properties	1	387	6,547	7,630	5,011	6,263	6,487	4,947	420	37,693
Contributions in Lieu - Band D Equivalents										196
Sub-total										37,889
Less Bad Debt Provision at 3.5%										(1,425)
Total Council Tax Base										36,464

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.

2021/22 £000	Non-Domestic Rate Income Account	2022/23 £000
43,735	Gross Council Tax levied and Contributions in Lieu	44,743
	Less:	
(16,382)	Reliefs and other deductions	(10,682)
(617)	Write-off of Uncollectable Debts and Allowances for impairment	(784)
26,736	Net Non-Domestic Rates Income	33,277
(2,582)	Prior year adjustments	(4,671)
(104)	Non-domestic rates income retained by the council (BRIS)	0
24,050	Contribution to Non-Domestic Rate Pool	28,606
	Allocated:	
24,127	Contribution to non-domestic rate pool	28,688
(77)	Council Rate Income - non-pool	(82)
24,050		28,606
18,811	Amount distributed to Midlothian Council from non-domestic rate pool	24,895

The Business Rate Incentivisation Scheme (BRIS) permits the Council 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 (2021/22 49.0p) per £, where the rateable value was less than £51,000 (2021/22 £51,000), 51.1p where the rateable value is between £51,000 and £95,000 and 52.4p (2021/22 50.3p between £51,000 and £95,000, 51.6p greater than £95,000) per £ where the rateable value exceeded £95,000 (2021/22 £95,000).

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.

2021/22 Numbers	2021/22 £000	Analysis of Rateable Values and Number of Premises	2022/23 Numbers	2022/23 £000
1,837	49,125	Shops, Offices and Other Commercial Subjects	1,828	49,279
944	17,114	Industrial and Freight Transport	954	19,777
302	20,482	Miscellaneous (Schools etc.)	303	22,931
3,083	86,721	Total	3,085	91,987

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.

Risk Management Update – Strategic Risk Profile Quarter 1 2023/24

Report by Derek Oliver, Chief Officer Place

Report for Information

1 Recommendations

Audit Committee is recommended to:

- Note the current risk landscape and organisational response to the most significant risks in Quarter 1 (Q1) 2023/24 (1 April to 30 June 2023).

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Audit Committee with:

- An update on the risk responses Midlothian Council has implemented during Q1 2023/24 to respond to the current risk climate
- Assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to the current risk climate
- The risk evaluation of current strategic risks and opportunities for the Council

14 September 2023

Report Contact:

Derek Oliver, Chief Officer Place

Derek.Oliver@midlothian.gov.uk





3 Q1 risk management overview

- 3.1** Midlothian Council has delivered a wide range of services to the people of Midlothian throughout Quarter 1 2023/24.
- 3.2** The Council continues to manage and review risks recorded within the Strategic Risk Profile. The work required to maintain the necessary corporate oversight over the broader strategic landscape continues through the Risk and Resilience Chief Officer's group and Corporate Management Team (CMT).
- 3.3** Audit Committee should note that there were no new risks added from the previous Quarter. Updates on actions taken are included in the full strategic risk profile (Appendix B).

Strategic Risk Profile Summary

- 3.4** The SRP is split into three sections:
- Strategic issues
 - Strategic risks
 - Opportunities

STRATEGIC ISSUES - SUMMARY

Strategic issues	Likelihood	Impact	Score	Evaluation Q1	Q4 22/23
COVID 19	1	4	4	Low 	Low
The Change Programme	5	5	25	Critical 	Critical
Financial Stability	5	5	25	Critical 	Critical
National Care Service	3	5	15	Medium 	Medium

COVID-19

- 3.5** The risk evaluation was reduced from Critical to High in Q1 22/23 and remained as high through 2022/23. With the recovery of the pandemic, the likelihood was re-evaluated and considered low in Q4 22/23. The Council continues to monitor and risk assess as appropriate.

The Change Programme

- 3.6** The Change Programme remained at Critical throughout 22/23 and into Q1 23/24. The financial challenges of the underlying budget gap pose a significant challenge for benefits realisation. Council agreed to a Transformation Blueprint in June 2023 which is a 5-year transformation plan.



















Financial Sustainability

- 3.7** The scale of the financial challenge continues to be reported to Business Transformation Steering Group and Council.

National Care Service

- 3.8** The first stage of the Bill has been delayed and it is anticipated that an update shall be available around December 2023.

STRATEGIC RISKS – SUMMARY

Strategic Risks	Likelihood	Impact	Score	Evaluation Q1	Q4 22/23
Climate change	5	5	25	Critical 	Critical
Financial Sustainability in future years	5	5	25	Critical 	Critical
The Long Term Change Programme	5	5	25	Critical 	Critical
Early Years Expansion (1140 Hours)	4	5	20	High 	High
Scottish Child Abuse Inquiry	4	4	16	High 	High
UK decision to leave the EU	4	5	20	High 	High
Growing Council	4	4	16	High 	High
Cost of Living Crisis	3	5	15	Medium 	Medium
Asset Management	3	5	15	Medium 	Medium
Cyber Security	3	5	15	Medium 	Medium
Health and Safety	3	5	15	Medium 	Medium
Care at Home	3	4	12	Medium 	Medium
Governance and standards	2	4	8	Low 	Medium
Employee performance	3	4	12	Medium 	Medium
Emergency planning and business continuity	3	4	12	Medium 	Medium
Legal and Regulatory compliance	3	3	9	Medium 	Medium
Internal control environment	2	3	9	Low 	Medium
Corporate policies and strategies	2	3	6	Low 	Low

STRATEGIC RISKS – RATED CRITICAL/HIGH

Climate Change

- 3.13** The Council developed a Climate Change Action Plan as part of its Climate Change Strategy approved by Council in August 2020, as well as making the commitment to achieve Carbon Neutral by 2030.
- 3.14** A review of the current Climate Change Strategy and Action Plan is being undertaken and an update will be provided to Council in Q2 2023/24. The risk evaluation continues to remain Critical in Q3.

Early Years Expansion (1140 hours)

- 3.17** Following the Scottish Government's decision to increase the number of free early learning and childcare hours to 1140, the Council has continued to plan with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in estate capacity. These challenges are being considered in the wider context of the plan, in which the capacity and

expansion of all funded providers (council, private and voluntary settings as well as childminders) combine to deliver the requirements.

- 3.18** This risk evaluation continues to remain High whilst the Council awaits an update on the funding provision.

Scottish Child Abuse Inquiry (SCAI)

- 3.19** The SCAI risk remains High.

UK decision to leave the EU

- 3.20** The rate of inflation is impacting on the cost of living crisis for Midlothian residents and posing significant risk to a number of Council Capital Programme work streams. This was reported to the Business Transformation Steering Group (BTSG) and also through progress reports on programmes to Council. This risk evaluation remains High.

Growing Council

- 3.21** In Q2 22/23 the risk evaluation increased from Medium to High and remains High in Q1 2023/24. This is in response to the current financial challenge as described above and the increased pressure the Council faces with growth. Some current examples of this include:

- Inflationary impact on the delivery of the capital programme
- Cost of living crisis and rent freeze response that could risk the delivery of the house building programme
- Pressure on the care sector as people are living longer and require more care provision
- General population growth places additional demand on infrastructure such as GPs, schools, waste services etc.

- 3.25** Work is ongoing to review the Learning Estate Strategy and a reprioritisation of the Capital Programme.

STRATEGIC OPPORTUNITIES

Shawfair

- 3.26** The Shawfair development, with its new Rail link provides a major incentive for house builders, employers, retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste. The Energy Services Agreement with Shawfair LLP has now been signed and work progresses to deliver the Energy Centre.

Easter Bush

- 3.27** Fast growing opportunities in Science, Technology, Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. The rate of inflation is impacting on the costs of the A701 improvements which will was reported to Council at the end of June 2022. A funding application was submitted to the UK Government's Levelling Up fund to close the funding gap.

City Deal

- 3.28** Edinburgh and South East Scotland City Region Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018. Projects continue to be progressed with realisation of regional enhancements and connectivity.

Creating a world class education system

- 3.29** The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

There are no direct resource implications indicated in this report, although, individual risks have associated resource implications.

4.2 Digital

None

4.3 Risk

The risks reported in this report are understood with the Council able to demonstrate the current risk controls and actions being taken in response to these.

The report provides an overview of the significant risks faced by the Council during Quarter 1 2023/24 and should act to provide assurance that Midlothian Council took a proportionate and planned approach to prepare and respond to each of these risks.

4.4 Ensuring Equalities (if required a separate IIA must be completed)

There are no direct equalities issues arising from this report.

4.4 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Strategic Risk Profile (Quarter 1 2023/24)

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

This report provides an overview of the Strategic Risk Profile of Midlothian Council at a defined point in time. The issues, risks and opportunities affecting or supporting delivery of the council priorities are set out within the Strategic Risk Profile.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The Council's commitment to best value and securing continuous improvement can best be delivered when decisions are made against a backdrop of understanding the risks and opportunities before an organisation. This report seeks to provide assurance that the current risk environment is understood and that Midlothian Council is taking appropriate action in response to those identified risks.

A.5 Involving Communities and Other Stakeholders

This Strategic Risk Profile report has been compiled with input from a range of internal key stakeholders.

A.6 Impact on Performance and Outcomes

This report seeks to provide an overview of the challenging risk environment within which the Council is operating at this time. Being in a risk aware position helps to inform current and future decision making, with the intention of enhancing decision making and the associated performance and outcomes which flow from well informed decision making.

A.7 Adopting a Preventative Approach

The Risk Management approach being taken by the Council is founded on a preventative approach to managing risks, where appropriate and more generally to decision making with far greater risk awareness.


A.8 Supporting Sustainable Development


Senior Managers must ensure the sustainability of the Council, which entails identifying, understanding and managing Strategic and Service level risks and opportunities.


Strategic Risk Profile

Strategic issues

SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	<p>Risk cause The pace of transformation strands of activity, reporting to the Business Transformation Board, does not secure service transformation, delivery of outcomes or benefit realisation.</p> <p>Risk event Delayed progress or non-achievement of outcomes and benefits.</p> <p>Risk effect Slow or delayed financial benefits arising from service redesign, requiring the adoption of recovery plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions, Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships	<p>Transformation Blueprint agreed at Council June 2023 which is a 5-year transformation plan. Revised governance for transformation agreed and PMO to be established to oversee change programme.</p> <p>2. Regular reporting to Council setting out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income.</p> <p>3. Cross Party Business Transformation Steering Group engaged in consideration of measures to secure balanced budgets alongside the development of a Strategic Plan to support decisions about what services, beyond those which are statutory can be provided.</p> <p>4. Financial monitoring reports and work of the Financial Management Corporate Management Team evidence continued financial sustainability, in so far as services are delivered within the overall budget in year.</p>	5	5	




Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SPR.RA-02.08	Transformation Blueprint 2023-28 approval	<p>Q1 23/24: Transformation Blueprint presented to Council in June 2023 and agreed. Transformation Manager appointed – expected start date Q2 2023/24. Review of BTB governance complete and closure report produced for BTSG Q2 2023/24.</p> <p>Q4 22/23: The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p>	Chief Finance Officer / Chief Officer Corporate Solutions (Acting) / Chief Officer Place	<p>27 Feb 2024</p> <p>27-June-2023</p>	


		Q3 22/23: Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023.			
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p>Q1 23/24: The projected budget gap through to 2028/29 was presented to BTSG and contained in the Transformation Blueprint approved by Council. Updated projections will be presented to BTSG and to Council on a regular basis.</p> <p>Q4 22/23: An assessment of the projected budget gap through to 2028/29 was presented to BTSG, is contained in the Transformation Blueprint and will be updated regularly to BTSG and to Council.</p> <p>Q3 22/23: An ongoing assessment of the projected gap for 2023/24 proposals through to 2027/28 has been presented to BTSG alongside a series of officer savings proposals to bring recurring expenditure back in line with recurring income.</p>	Chief Finance Officer	27 Feb 2024 27-June-2023	


SRP.IR.07 Financial Sustainability

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p>Risk cause Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's Increasing population of 0-15 age group and at a time when there are rising customer expectations.</p> <p>Risk event Transformation activity and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps.</p> <p>Risk effect Inadequate government funding makes securing balanced budgets challenging. It turn erodes the Council's ability to deliver services to the community and potentially means that resources available fall short of those the Council assess as required to meet its statutory obligations. Whilst transformation activity can help reshape services and ensure best value in the delivery of services it is not a solution to continued erosion of core funding.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions. Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships	<p>1. There is an approved Capital Strategy and Reserves Strategy in place. The Capital Strategy is being updated in the context of ongoing and significant infrastructure pressures.</p> <p>2. There is an approved budget for 2022/23. Services were delivered within the totality of that budget and the 2023/24 budget has been approved albeit with some reliance on one off funding.</p> <p>3. There are effective arrangements in place to monitor financial performance including quarterly reporting to Council with draft reports considered at a dedicated CMT session each quarter to bring greater focus.</p> <p>4. Directorates have budget boards in place to monitor and agree actions for those items which are identified as needing specific attention or present a risk to the financial position of services.</p> <p>5. Strategic Boards in place and BTB focus and attention on driving transformation to support future year's financial sustainability.</p> <p>6. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p> <p>7. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth.</p> <p>8. Chief Executive continues to emphasise the need for effective</p>	5	5	


			<p>financial control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place across the Council.</p> <p>9. Scottish Governments May 2022 Resource Spending Review provided planning parameters for term of parliament, albeit these are challenging and present a real terms reduction in grant funding of circa 7% over the period.</p> <p>10. Report to Council 21 February 2023 sets out scale of financial challenge ahead with recurring expenditure for current service delivery projected to exceed recurring income.</p> <p>11. "Mini Budgets" progressed in 2020/21 and in 2021/22 that removed non-deliverable legacy savings targets given focus on response to and recovery from pandemic.</p> <p>12. Cross Party Business Transformation Steering Group engaged in consideration of measures to secure balanced budgets alongside the development of a Strategic Plan to support decisions about what services, beyond those which are statutory can be provided.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
NEW	Capital Plan Prioritisation	Q1 23/24: The Capital Plan in its current format is unaffordable due to rising costs of construction, inflation and EU-Exit/post pandemic and other economic pressures. A review of the Capital Plan is underway to determine affordability, prioritisation and options presented to members for consideration in Q2 2023/24.	Executive Director Place	Oct-2023	
SPR.RA-02.09	Transformation Blueprint 2023 to 2028	<p>Q1 23/24: Transformation Blueprint presented to Council in June 2023 and agreed. Transformation Manager appointed – expected start date Q2 2023/24. Review of BTB governance complete and closure report produced for BTSG Q2 2023/24.</p> <p>Q4 22/23: The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p> <p>Q3 22/23: The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p>	Chief Finance Officer	Complete	
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p>Q4 22/23: An assessment of the projected budget gap through to 2028/29 was presented to BTSG, is contained in the Transformation Blueprint and will be updated regularly to BTSG and to Council.</p> <p>Q3 22/23: An ongoing assessment of the projected gap for 2023/24 proposals through to 2027/28 has been presented to BTSG alongside a series of officer savings proposals to bring recurring expenditure back in line with recurring income</p>	Chief Finance Officer	Complete	

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	<p>Risk cause: COVID 19 Virus</p> <p>Risk event: Virus evident in all communities with rates of positive infection increasing. In a Scottish setting the focus on increase is within the central belt.</p> <p>Risk effect: Potential for widespread impacts with the risk of significant levels of community transmission leading to increased government restrictions aimed at reducing community transmission.</p> <p>Delivery of services making use of remote working solutions as far as possible. National lockdown measures to limit and control spread, impact on income generating services.</p> <p>Rapid pace of guidance change following government announcements and expectation of quick changes to service delivery in line with new controls.</p>	<p>Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions. Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, HR Strategic Lead</p>	<p>1. CIMT established to take the strategic approach to managing the response to COVID 19 and stands ready to be re-initiated at any time.</p> <p>2. Hybrid working has been adopted by the Council as well as a dedicated Hybrid Working Board as part of the Transformation Programme</p> <p>3. COVID-19 guidance monitored and continually revised, with particular focus on Adult Services, Children's Services, Education and Communities and Lifelong Learning around how they would continue to maintain contact with children and young people who were deemed to be at risk.</p> <p>4. Keeping employees briefed and supported through the Chief Executive's weekly staff briefings; Communications weekly email and routine HR updates. (e-mailed to all employees through combination of work and personal e-mail addresses). Includes Wellbeing advice, guidance and support and signposting to PAM and EAP providers.</p> <p>5. Promotion of digital tools to support employees and prevent employees becoming isolated.</p> <p>6. Council website kept up-to date, providing details of which services were operating and any changes on how to access services.</p> <p>7. A range of interventions, including digital equipment and tools such as MS Teams put in place to support remote and hybrid working</p> <p>8. Following safe working guidance issued by Scottish Government relevant to sectors.</p> <p>9. Economic Recovery Strategy</p> <p>10. School and workplace based COVID risk assessments continually reviewed to support the identification and control of risk (and personal risk assessments where required)</p>	1	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.10.1	Hybrid Working	<p>Q1 23/24: Hybrid Working Programme closed. Closure report presented to Place DMT and contained within BTB closure report. Workstreams relating to Estate Rationalisation have moved into Blueprint and continue under the themes of Hub & Spoke, Capital Plan and One Stop Shops. Project Team and Terms of Reference being established.</p> <p>Q4 22/23: Project continuing.</p> <p>Q3 22/23: Hybrid Working project is a key project contributing to the Council's transformation programme. Project Board regularly reports to Business Transformation Board and Business Transformation Steering Group.</p>	Executive Director Place, Chief Digital Officer, Chief Officer Place, Chief Officer Corporate Solutions	31 Mar 2024	


SRP.IR.11 National Care Service





Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.11	<p>Risk cause In August 2022 the Scottish Government launched a 12-week consultation on the way in which social care is delivered in Scotland. The consultation followed recommendations made in the Independent Review of Adult Social care. The independent analysis of responses was published in February 2022. On 20 June 2022 the Scottish Parliament published the National Care Service (NCS) Bill which will provide the foundation for the NCS.</p> <p>Risk event A Bill passes through various Parliamentary stages. The Bill is currently in Stage 1 of the process. The most significant part of the legislation which poses the most risk is the intention to transfer social care responsibility from local authorities to a new, national service.</p> <p>Risk effect The details of the logistics of any transfer are not yet provided within the Bill. It is not clear the extent to which powers will be removed from local authorities or what the provision or delivery of services will or will not be.</p> <p>At this stage, the risk effect is anticipated to be significant financial impact to local authorities and IJBs, as well as the potential for impacts on staffing, transfer of property and facilities and the reshaping of the delivery of care. It should be noted that the initial impact on the Council is staff time to contribute to the ongoing discussions and understanding of the impact of the Bill.</p>	Chief Executive, Executive Director Health & Social Care, Head of Adult and Social Care; Executive Director Children, Young People and Partnerships, Executive Director Place; Chief Officer Children, Young People and Partnerships	<p>1. The first stage of the Bill has been delayed and it is anticipated that an update shall be available around December 2023.</p> <p>2. Officer Working Group established to engage with the NCS Design School and to continue the existing work with COSLA, SOLACE, SOLAR and other relevant bodies</p> <p>3. Ongoing briefings with elected members</p> <p>4. Continued dialogue and engagement with Scottish Government and IJB/H&SCP/Children's Services</p>	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.1	Officer Working Group	<p>Q1 23/24: Work on the NCS has been delayed and further information will not be available until around December 2023</p> <p>COSLA and Social Work Scotland have formally requested a pause on the NCS Bill. Officer Working Group agreed to be established by CMT</p>	Chief Executive	Working Group established and meets as and when required	

Strategic Risks

SRP.RR.01 Financial Sustainability in future years

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.01	<p>Risk cause: Scottish Government Grant settlements fall short of the resources needed to sustain core services. Core funding falling short of inflation pressures, pay awards and demographic pressures arising from an Increasing ageing population of over 75's. Increasing population of 0-15 age group and at a time when there are rising customer expectations. Policy decisions by UK & Scottish Governments which are not fully funded. Changes to the responsibilities of Local Government and the funding implication that arise from that, particularly in respect of the creation of a National Care Service. Future year pay award settlements.</p> <p>Risk event: Real terms reduction in core grant settlements. Policies decisions at Government level not fully funded to Council's. Implementation of a National Care Service and impact on grant settlements Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates. Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery.</p> <p>Risk effect: Gap in Council budget between budget commitments / pressures and funding level and inadequate options presented to address this, resulting in a structural deficit. The pace of growth coupled with the shortfall in grant settlements adds pressure to Council budgets which will be unable to deliver capital and revenue work programmes.</p>	<p>Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions. Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships</p>	<ol style="list-style-type: none"> 1. The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. 2. Maintaining a level of reserves to deal with unforeseen or one-off cost pressures. 3. Capital and Reserves Strategies in place. The Capital Strategy is being updated in the context of ongoing and significant infrastructure pressures. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions. 7. Strategic Boards in place to drive transformation in line with the Transformation Blueprint. 8. Dedicating capacity to understand impact of NCS Bill, but limited details mean this is challenging and many unanswered questions (refer to specific risk on NCS for further detail) 	5	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p>Q1 23/24: The projected budget gap through to 2028/29 was presented to BTSG and contained in the Transformation Blueprint approved by Council. Updated projections will be presented to BTSG and to Council on a regular basis.</p> <p>Q4 22/23: An assessment of the projected budget gap through to 2028/29 was presented to BTSG, is contained in the Transformation Blueprint and will be updated regularly to BTSG and to Council (see SRP.RA.02.04) .</p> <p>Q3 22/23: An ongoing assessment of the projected gap for 2023/24 proposals through to 2027/28 has been presented to BTSG alongside a series of officer savings proposals to bring recurring expenditure back in line with recurring income</p>	Chief Finance Officer	27 Feb 2024	
SRP.RA.02.04	Transformation Blueprint 2023 to 2028	<p>Q1 23/24: Transformation Blueprint presented to Council in June 2023 and agreed. Transformation Manager appointed – expected start date Q2 2023/24. Review of BTB governance complete and closure report produced for BTSG Q2 2023/24.</p> <p>Q4 22/23: The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p> <p>Q3 22/23: The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p>	Chief Executive, Chief Finance Officer	27 Feb 2024	
SRP.RA.02.05	Understanding impact of NCS Bill		Chief Executive	Paused	
NEW	Capital Plan prioritisation	<p>Q1 23/24: The Capital Plan in its current format is unaffordable due to rising costs of construction, inflation and EU-Exit/post pandemic and other economic pressures. A review of the Capital Plan is underway to determine affordability, prioritisation and options presented to members for consideration in Q2 2023/24.</p> <p>Q4 22/23: Work progressing on Capital Plan prioritisation.</p> <p>Q3 22/23: Work is ongoing to review the overall Capital Plan and committed expenditure, with a reprioritisation of the programme reflective of the escalating inflationary pressures. Reprioritisation plan to be presented to Council in Q4 for approval, aligned to the Medium-Term Financial Strategy.</p>	Executive Director Place, Executive Director Children, Young People and Partnerships, Chief Finance Officer, Head of Development	October 2023	

SRP.RR.02 The Long-Term Change Programme


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.02	<p>Risk cause</p> <p>A MTFS that doesn't address the projected budget shortfall</p>	Chief Executive, Executive	1. Development of Strategic Plan, Transformation Blueprint and MTFS projections which come together to provide a framework to effect	5	5	


	<p>or contextual factors relating to the Midlothian area. Reduced resources Leadership fit for the future. Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including Delivering Excellence Framework Slow benefits realisation and budget savings Cuts in service provision rather than service transformation</p> <p>Risk effect Objectives of change not actually met. Adverse impact on services Slow or delayed proposals/savings arising from service redesign. Potentially further eroding reserves or requiring short term service reductions which impact on Council's ability to deliver against its priorities. Staff morale negatively affected, Government step-in short term savings instead of transformation</p>	<p>Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships</p>	<p>change and to move the Council to a position of financial sustainability. 2. Leadership from all Elected Members, Executive Team and Senior Leadership Group. 3. Appropriate governance in place across the BTB Strategic Boards 4. Resilience planning. 5. Capacity to deliver change. 6. Dedicating capacity to understand impact of NCS Bill, but limited details mean this is challenging and many unanswered questions (refer to new risk on NCS for further detail)</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	
SPR.IA.02.06	Transformation Blueprint 2023 - 2028	<p>Q1 23/24: Transformation Blueprint presented to Council in June 2023 and agreed. Transformation Manager appointed – expected start date Q2 2023/24. Review of BTB governance complete and closure report produced for BTSG Q2 2023/24.</p> <p>Q4 22/23: The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p> <p>Q3 22/23: Q3 22/23: The Strategic Plan, Transformation Blueprint and updated MTFS projections will all be presented to Council in June 2023. They come together to provide a framework to effect change and to move the Council to a position of financial sustainability.</p>	Chief Finance Officer, Chief Officer Place, Chief Officer Corporate Solutions	27-June-2023	
SRP.RA.02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	<p>Q1 23/24: The projected budget gap through to 2028/29 was presented to BTSG and contained in the Transformation Blueprint approved by Council. Updated projections will be presented to BTSG and to Council on a regular basis.</p> <p>Q4 22/23: An assessment of the projected budget gap through to 2028/29 was presented</p>	Chief Finance Officer	27-June-2023	

		to BTSG, is contained in the Transformation Blueprint and will be updated regularly to BTSG and to Council. Q3 22/23: Q3 22/23: An ongoing assessment of the projected gap for 2023/24 proposals through to 2027/28 has been presented to BTSG alongside a series of officer savings proposals to bring recurring expenditure back in line with recurring income			
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SRP.RR.03 Legal and Regulatory Compliance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p>Risk cause Current or new legislation applying to Midlothian Council</p> <p>Risk event Council and or Services not identifying all applicable legislation impacting Council activities and Service requirements.</p> <p>Risk effect Council failing to meet its statutory obligations resulting in a potential negative impact for service users or employees. Reputational impact of not meeting statutory obligations.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, Legal and Governance Manager	<ol style="list-style-type: none"> 1. Executive Directors, Chief Officer(s) and Head(s) of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required. 2. Annual Assurance Statement. 3. Internal Audit testing of internal controls as part of risk-based audit plan. 4. External Audit. 5. Range of external inspection. 6. Local Scrutiny Plan 7. BTSG oversight of new legislation 8. Central repository of applicable legislation. 	3	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.0	Rights of the Child Bill		Executive Director	31-Dec-23	


2		<p>Q4 22/23: No further progress from previous quarter.</p> <p>Q3 22/23: Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Government's new bill on the rights of the child is expected to have far reaching implications for public bodies. Midlothian Council is beginning to roll out training with regards to the implication this new piece of legislation shall have on all services.</p> <p>Q2 22/23: Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Government's new bill on the rights of the child is expected to have far reaching implications for public bodies. With guidance beginning to be disseminated from the Scottish Government, the Council is continuing to monitor and plan.</p>	Children, Young People and Partnerships, Chief Social Work Officer		
SRP.RA.03.03	National Care Service	<p>Q1 23/24: The first stage of the Bill has been delayed until December 2023</p> <p>Q1 22/23: Officer Working Group agreed to be established by CMT. Note details on the NCS Bill are currently limited – see new risk within Strategic Risk profile for further information and actions.</p>	Chief Executive	31-Dec-2023	
SRP.RA.03.05	Standing Orders	<p>Q1 23/24 - no update – as per last quarter work is ongoing</p> <p>Q4 22/23: The Standing Orders Working Group (SOWG) met in April 2023. The interim hybrid working protocol was reviewed and referred to Council. It was agreed in May 2023 by Council. SOWG will monitor the implementation of the interim protocol and will review in Q3/Q4 2023/24. The SOWG will meet in Q3 to review the revised changes to Standing Orders following its first meeting. It is anticipated that revised Standing Orders will be presented to Council late Q3/early Q4 for approval and implementation</p> <p>Q3 22/23: The Standing Orders Working Group was approved and appointed at the Council meeting on 13.12.2022 and will meet in Q3 to ensure that these issues are included within this work programme and that all staffing changes are incorporated into the Scheme of Delegation. In the interim, mitigations will be put in place to ensure authorisations are valid.</p> <p>Q2 22/23: Structural reviews within the Midlothian Council resulting in the Standing Orders being outdated. Authorised Officers within Regulatory Services may be open to challenge in relation to statutory enforcement work on grounds of delegated authority. Statutory enforcement work including the service of Statutory Notices, Fixed Penalties and Court proceedings may require to be withdrawn resulting in reputational damage and or financial penalty (e.g., case costs awarded against the LA). Structural reviews approved by Council have been incorporated into Standing Orders.</p>	Executive Director Place; Chief Officer Corporate Solutions, Legal and Governance Manager	31- Mar 2024	

SRP.RR.04 Employee performance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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SRP.RR.04	<p>Risk cause Employees not suitably trained/developed for the roles required of them. limited availability of qualified practitioners in certain sectors Change program not informed by all key stakeholders Ageing work force Employees unclear on expected behaviours. Employees constrained to innovate as a result of management practice Employee productivity rate below the required level because of ineffective use of the People Policies particularly Maximising Attendance Salaries significantly lower in social work area in comparison to other LA's resulting in recruitment issues particularly with trying to recruit experienced staff</p> <p>Risk event Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Inability to recruit suitably qualified / trained staff to fill vacancies negatively impacting on remaining workforce Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change</p> <p>Risk effect Difficulties recruiting the right staff Challenges retaining quality staff Low skill levels Low morale, especially during change High absence rates, loss of experience in service areas. 'A Great Place to Grow' our values including respect ,collaboration, pride and ownership not realised, potentially resulting in missing the opportunity to capitalise on the abilities, experience and ideas of team members. Poor employee performance will Exacerbate the financial challenge</p>	<p>Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, HR Strategic Lead</p>	<p>Over-riding risk control measure = Focus on having the right people, here, healthy, performing, behaving and well led via effective utilisation of the workforce strategy and accompanying action plan.</p> <p>Attendance / Wellbeing 1. Continuing implementation of the Wellness@Midlothian agenda. 2. Creation of an Employee Health and Wellbeing Strategy and supporting policy. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Change of EAP supplier to ensure provision of best possible service. 6. Development of progressive People Policies. 7. Roll-out of mental health training for staff and managers.</p> <p>Performance 1. Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Continued re-enforcement of all People Policies involving various communication methods. 4. Development of a suite of management information to ensure Service Managers are informed e.g., turnover, absence levels/reasons etc.</p> <p>Organisational Change 1. Policy for Organisational Change includes strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment.</p> <p>Conduct 1. Resolution Policy encourages early intervention of workplace issues. 2. Professional standards and values build into the induction process and management development programme.</p> <p>Communication 1. A range of initiatives to keep staff informed of change (Chief Executive's weekly email, Connect, All staff emails, tailored team briefings etc.</p>	3	4	
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04 LORNA	Revisions to Service Workforce Plans - including analysis of future workforce requirements, gap analysis and gap	Q1 23/24: Service plans were presented to June 2023 council. Supporting workforce plans are due to be fully in place for June 2024. The workforce planning process, guidance and	HR Strategic Lead	31 Mar 2024	


GILBERT	closing strategies, and performance measures and target setting.	documentation has been developed and approved for use by managers across the council. The HR team is available to support managers who wish help and guidance in the development of these workforce plans. Q3 22/23: Workforce plan guidance issued to all Directorates. Refreshed workforce plans to be developed in line with the new service plans for the next financial year 23/24. Q4 22/23: Service Plans 2023-27 being presented to June Council for agreement. Workforce plans will then be developed aligned to agreed revised service plans agreed in June 2023; supporting workforce plans in place by June 2024.			
SRP.RA.02.06	Workforce wellbeing	Q1 23/24: Health and Wellbeing is part of the work ongoing under Theme 2 of the Blueprint. This work will report further as part of that reporting process, in the latter half of 2023. Q3 22/23: Continuing to embed the new Employee Health and Wellbeing Strategy.	HR Strategic Lead	31 Mar 2024	



SRP.RR.07 Care at Home


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	<p>Risk cause Internal and External providers of Care at Home services unable to meet service and quality requirements as a result of a lack of capacity.</p> <p>Risk event Capacity of Community Support outstripped by demand</p> <p>Risk effect There is a risk that patients will have their discharge delayed because there is insufficient community supports to enable timely discharge leading to deterioration in their health, beds being blocked and elective operations potentially being cancelled.</p>	Director Health and Social Care, Head of Adult Health and Social Care	1. Care at Home winter assurance plan and business continuity plan complete 2. Development of Care at Home Service Improvement action plan near completion 3. External commissioning complete and ongoing contract monitoring in place 4. External provider audits complete 5. Re-established Multi-Agency Quality in Care at Home quarterly review meetings jointly with East Lothian 6. Weekly provider meetings in place 7. Additional locum team members and contracts with agency staff in place 8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.07.01	Independent review of adult and social care	Q1 23/24: Pause remains in place.	Head of Adult and Social Care; Chief Executive	31-Jan-2024	


SRP.RR.08 Asset Management – buildings, vehicles, roads and Digital assets/networks

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.08	<p>Risk cause Many of the assets the Council own by their nature are in a position of ongoing deterioration through their normal use, e.g., roads - normal wear and tear, street lights and vehicles & buildings used to deliver services.</p> <p>Risk event Many assets will deteriorate under normal conditions although buildings, roads and street lights as an example can be damaged during more extreme weather events or as a result of a lack of maintenance.</p> <p>Risk effect In the case of Roads Services there is a real risk of increased potholes and insurance claims, reduced skid resistance leading to higher accident potential and building up of higher costs in the future. In respect of vehicles, increased breakdowns, service failures, greater maintenance inevitable, higher short-term hire costs. In terms of property, health and safety issues arise, failure to meet current standards and higher running costs. There is also the risk of two-tier accommodation, some high quality, some low.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, Head of Development	<ol style="list-style-type: none"> 1. There is provision in place within the capital plan for investment in the asset base. 2. Asset register 3. Condition Survey 4. Understanding of future asset needs 5. Asset Strategy: <ul style="list-style-type: none"> . Roads . Land . Fleet . Digital Service Network . Digital Service hardware 6. Capital program - investment in estate. 7. Ongoing monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users. 8. Established Capital Plan and Asset Management Board and dedicated Asset Management Board 9. Establishment of 7 thematic Estate Safety and Management Groups chaired by Chief Officer Place 10 Building Accessibility Strategy 	3	5	



Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.08.02	Plan for appropriate investment in capital works and remedial maintenance over the lifespan of each property asset.	<p>Q1 23/24: Surveyors Thompson Gary have been appointed and are progressing a schedule of condition surveys over a 2-3 year period. This is currently in hand with surveys progressing.</p> <p>Q2 22/23: Programme of work agreed to progress for building condition surveys on a phased approach, over a three year period. Move to implementation into 22/23.</p>	Chief Officer Place	31-Mar-2024	
SRP.RA.08.05	Learning Estate Strategy	<p>Q1 23/24: All Priority 1 projects as detailed in the Learning Estate Strategy have been approved by Council in June 2023, this includes Beeslack HS replacement and Penicuik HS refurbishment & extension. A number of Projects in the priority 2 tranche have been progressed to ensure schools to do not experience capacity breaches. Q4 22/23 Due to a number of factors a number of key Learning Estate project remain at risk. Rising costs, labour shortage and availability of materials. Some of the LES priority projects are not funded in the existing Capital Plan.</p>	Executive Director Children, Young People and Partnerships, Head of Development	31-Mar-2024	

		Q2 22/23: Potential risk to delivery of Learning Estate projects due to .inflated costs from a number of factors. Factoring the commitment to net zero into our projects has added another cost pressure and may affect the affordability and viability of some projects. Oversight of Learning Estate programme through the Capital plan & Asset Management Board			
SRP.RA.08.06	Asset Management systems	Q1 23/24: <u>Included within the Transformation Blueprint sprints</u>	Chief Officer Place	31-Mar-2024	


SRP.RR.09 Emergency Planning and Business Continuity Management


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	<p>Risk cause The Council not preparing or timeously reviewing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents</p> <p>Risk event There are a wide range of potential events the Council may be expected to respond to e.g., Severe weather incident, Pandemic, Utility disruption etc.</p> <p>Risk effect Censure through non-compliance with the Civil Contingencies Act Not adequately recovering from the loss of major accommodation (e.g., secondary school, main offices), computer systems and staff Not able to respond to a major emergency in the community Fatal Accident Inquiries</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, Head of Development, Senior Manager Protective Services, Health, Safety & Resilience Manager	<p><u>Potential</u> sub risks include:-</p> <p>01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Risk and Resilience Group support development, peer review and roll out of plans.</p> <p>02 – Establishment based incident response plans in place and maintained locally.</p> <p>03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations.</p> <p>04 – As part of the Council's Emergency response the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.</p> <p>05 – Care for People Group meeting 6 weekly to continue support for Communities in response to COVID – 19 to establish and co-ordinate support for people on a multi-agency basis.</p> <p>06 – Care for People Group: Afghan, Ukrainian and UASC support programmes</p>	3	4	

Related	Related Action	Related action latest note	Managed By	Due Date	Status
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Action Code					
SRP.RA.09.0 2	Development of Emergency Planning Improvement Plan	<p>Q1 23/24 A has been prepared for CMT on Enhancing Organisational Resilience and Preparedness. This report also addresses progress with business continuity. A service review of the Health, Safety & Resilience team is scheduled to commence in Q2 2023/24</p> <p>Q4 22/23: Following recent participation in a number of emergency exercises a draft report has been prepared for CMT on Enhancing Organisational Resilience and Preparedness. This report also addresses progress with business continuity.</p> <p>Q3 22/23: New Health, Safety and Resilience Team Manager in post</p> <p>Q2 22/23: New Contingency Planning Officer in post and work progressing on improvement plan</p>	Chief Officer Place; Senior Manager Protective Services, Health, Safety & Resilience Manager	30 Sept 2023	
SRP.RA.09.0 3	Business Continuity System	<p>Q1 23/24 as above in terms of staffing resource</p> <p>Consideration of the appropriateness of procuring the system upgrade version will occur in Q2</p> <p>Q4 22/23: Refer to point above.</p> <p>Q3 22/23: Pilot areas identified and champions across Directorates for the roll out</p> <p>Q2 22/23: System currently being populated ahead of roll out to all services. A small number of Council services engaged to test and validate operational functionality. Project governance now overseen through the Customer Service Platform Board</p>	Chief Officer Place; Senior Manager Protective Services, Health, Safety & Resilience Manager	30 September 2023	


SRP.RR.10 Governance and Standards in Public Life




Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.10	<p>Risk cause Code of conduct for Members and employees' actions falling short of International Standards.</p> <p>Risk event Failure in openness, accountability, clarity.</p> <p>Risk effect Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life</p>	Chief Officer Corporate Solutions; Chief Executive; Chief Officer Place; Executive Director Place; Alan Turpie	<p><u>Potential</u> sub risks include:-</p> <p>01 Macro governance at the top – failure in openness, accountability, clarity;</p> <p>02 Micro governance in services, partnerships and projects and outcomes not achieved</p> <p>03 Non-compliance with codes of conduct and reduction in standards in public life</p> <p>04 Annual Assurance Statement.</p> <p>05 Standing Orders</p> <p>06 Scheme of Administration</p> <p>07 Scheme of Delegation</p>	2	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.10.0 1	Corporate Governance	Q1 23/24: Annual Assurance Statement presented to Audit Committee in June 2023 and agreed Q4 22/23: Annual Assurance Statements to be presented to Audit Committee in June 2023 for 2022/23 year. See above for review of Standing Orders update. Q3 22/23: Annual Assurance Statement submitted annually, People Policies and Standing Orders subject to review process (see separate risks contained within the strategic risk profile for further information)	Executive Director Place; Chief Officer Corporate Solutions; Legal and Governance Manager	31-Mar-2024	

SRP.RR.11 Corporate Policies and Strategies

		Managed by	Risk Control Measures	Likelihood	Impact	Risk reduction
SRP.RR.11	<p>Risk cause Policies may not match the aspirations of the Council's Strategic priorities or cultural perspective.</p> <p>Risk event Policies not monitored may become out of date Policies not reviewed to ensure alignment with strategic priorities.</p> <p>Risk effect Policies not monitored could result in non-compliance with legislation Policies not aligned to strategic priorities will inhibit rather than support implementation of strategic priorities.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships	<ol style="list-style-type: none"> 1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in October 2022 5. Procurement Strategy 2018 6. Capital Strategy 7. Integrated Joint Board (IJB) Plan 8. IJB Strategic needs assessment 9. Midlothian Local Development Plan 2017 – the Council's corporate spatial strategy. 	2	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.11.0 2	Accessibility Strategy	Q1 23/24 : Education accessibility strategy updated Q4 22/23: Education staff will work with Place colleagues to update the Accessibility Strategy for session 23/24	Chief Officer Place; Chief Operating Officer	31-Aug 2023 31 Oct 2023	

		Q3 22/23: Work progresses through the building audit programme Q2 22/23: Education working with Property colleagues to refresh building data including information on building accessibility. Once work is complete, a work stream will be progressed to ensure Council compliance.	Education; Senior Manager Property and Facilities Management	31-Mar-2023	
SRP.RA.11.0 5	Antisocial Behaviour Policy	Q3 22/23: Work continues	Chief Officer Place	31-Dec-2023	
SRP.RA.11.0 6	Transformation Blueprint 2023 - 2027	Q1 23/24: Transformation Blueprint presented to Council in June 2023 and agreed. Transformation Manager appointed – expected start date Q2 2023/24. Review of BTB governance complete and closure report produced for BTSG Q2 2023/24. Q3 22/23: Development of Strategic Plan and MTFS for next term of Council being progressed to support decisions about what services, beyond those which are statutory can be provided. This facilitates setting of the 2023/24 budget in February 2023	Chief Executive; Chief Finance Officer	31-Dec-2023	
SRP.RR.11.0 1	Parental Engagement Strategy	Q1 23/24: Draft Parental Involvement & Engagement Policy at consultation Q4 22/23 – Positive engagement continues with Parents and learners. Q3 22/23: A Parental Engagement strategy and a Parent Council Toolkit have been developed and implemented in October 2022. The Parental Learner Liaison Officer continues to engage with parents and learners through Parent Council Chairs, Parent/ learner Conferences as well as hearing their voice through National Discussions and consultations. Q2 22/23: Parental Learner Liaison Officer has produced a draft Parental Engagement Strategy looking at examples throughout Scotland and a consultation with all stakeholders is underway. Following a review with Parent Council Chairs, a Parental Engagement calendar has been created for next session to support PC Chairs with the information and structure they need. The National Parental Involvement & Engagement survey has been rolled out to all Primary, Secondary & Special School parents with data to be evaluated in July. Parent Working Groups have been created to support specific interests and priorities – Consultation, Equity, Digital Learning, ASN & DWY/Positive Destinations. A Parent Council 'Toolkit' has been created to inform Parents of the functions of a Parent Council, provide support, signposting and remits. This will provide a more consistent structure within Midlothian of all Parent Councils and potentially boost numbers. Social Media has been created for Parental Engagement and the design of a webpage to add to the Council Website is underway. Draft plans for our first Parent Conference in Q1 of next session is underway. The same is to be said for a Pupil Conference. The PLLO is now an active member in the SEIC Young Persons Involvement Group and regularly meets the Education Scotland's Attainment Advisor.	Chief Operating Officer Education	31-Oct-23 31-Oct-2022	


SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	Risk cause Work procedures/process inadvertently create the capacity for fraud and waste to occur. Internal Controls requiring more time, effort or cost than the	Chief Executive, Executive Director Children, Young People	1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide provides direction on the need to balance time, effort and cost against benefit of risk controls.	2	3	




	<p>risk being managed. Mangers failing to follow procedures and keep systems updated with accurate information</p> <p>Risk event Persons exploiting opportunities to commit fraud Waste and errors Changing risk landscape associated with remote working solutions.</p> <p>Risk effect Waste and loss Risks over managed with risk controls costing more than the potential loss being managed.</p> <p>Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance</p>	<p>and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships</p>	<p>3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy (subject to review) 5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness. 7. Implemented changes to business processes and procedures to maintain and enhance internal control. 8. Bi-annual updates to Audit committee on progress with recommendations noted in the annual governance statement. 9. Continue remind staff of secondary employment/outside interests and gifts & hospitality 10. Digital induction for all new employees (with service exceptions), including legal, HR, procurement, health and safety. Control at entry to organisation. 11. Management Development Programme, delivered in partnership with Edinburgh College, provides reinforcement of organisational regulatory obligations. 12. The Integrity Group continues to meet to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime), maintaining proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.12.04	Review of Serious Organised Crime (SOC) group	<p>Q1 2023/24: Developing SOC Strategy, to include Insider Threat checklist</p> <p>Q3 22/23: Review continues Q2 22/23: Review of SOC has begun with stakeholder engagement underway</p>	Chief Officer Place	31-Mar-2024	

SRP.RR.13 Climate Change


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	<p>Risk cause Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act.</p> <p>Risk event</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive	<p>1. Statutory requirement to report on compliance with climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change Strategy and action plan 4. CPP Board for Climate Change to bring strategic focus and oversight of plans and progress.</p>	5	5	


	<p>Council Services not responding to the Climate Change Act with sufficient pace.</p> <p>Risk effect Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.</p>	<p>Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships; Senior Manager Planning, Sustainable Growth and Investment</p>	5. Resilience Seminars			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.03	Recruitment of Climate Change Officer	Q1 22/23: Service Review continues.	Chief Officer Place; Senior Manager Planning, Sustainable Growth and Investment	31 March 2024	
SRP.RA.13.04	Delivery of the BTB Board Carbon Neutral by 2030	Q3 22/23: Work underway to develop a fully costed Climate Change action plan to be presented to members in Q4 2022/23 (now Q2 2023/24) Q2 22/23: Carbon Management Plan requires to be reviewed and resourced adequately. There is a requirement for a cross Council approach to achieve carbon neutral by 2030. Work is underway in discrete areas to contribute to achievement of the ambition, but financial resource and staffing is required to develop an overarching engagement and action plan.	Chief Officer Place; Senior Manager Planning, Sustainable Growth and Investment	31-Mar-2030	
SRP.RA.13.05	Development of the Strategic Plan 2023-27	Q3 22/23: Carbon Neutral by 2030 is a strategic priority within the draft strategic plan (SMP) Q3 22/23: Carbon Neutral by 2030 is a strategic priority within the draft strategic plan	Chief Officer Place; Senior Manager Planning, Sustainable	31-Mar-2027	

			Growth and Investment		
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SRP.RR.14.1 Scottish Child Abuse Inquiry


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.1	<p>Risk Cause: Midlothian Council and its legacy organisations, predating the creation of Midlothian Council in 1996, have been involved in the provision of care of children going back to living memory. During this time there is the likelihood that the care children received fell below standards of care now in place. There is the further potential that some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p>Risk Event: The Scottish Government began an Inquiry into cases of Child Abuse occurring prior to 17 December 2014, the intention of this enquiry is to identify historic case of abuse which have to date gone unreported. The most recent Section 21 notice around the Foster Care Case Study is a significant piece of work. The request for information from 1930 to date is very challenging given the volume of files that require to be read and analysed.</p> <p>Risk Effect: If the inquiry finds historic cases of abuse in Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Chief Social Worker	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition, we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 1. Residential establishments, List D Schools and Foster Carers: identifying Children's homes, Foster Carers and any List D Schools in Midlothian over the last 100 years and researching historic records. 2. Record Audit: reviewing the Council's existing paper and electronic recordkeeping systems to identify relevant records and map them to residential establishments. This also includes, where possible, noting the Council's historic recordkeeping policies, such as retention schedules. 3. Cataloguing/Indexing: checking and updating existing recordkeeping systems for accuracy and consistency, enabling effective information retrieval when requested by the Inquiry. <p>The Project Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims. 5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims. 6. Identifying the need for guidance, protocol, templates etc. should/if any claims be made against the council. 7. Consideration to identifying if additional staffing will be required as expected deluge of FOI's SAR's in 2018 from solicitors of potential claimants. 8. Project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan. 9. The SCAI Social Worker is very competent and experienced in this area of work and provides quarterly updates on their findings from the file read. This is a real strength within this area of work. The CSWO and Principal Solicitor meet regularly with the social worker to discuss findings from the file read. 	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 3	Foster Care and Residential Care File Review	Q1 23/24: Inquiry has heard all the evidence for the Sect 21 submissions around foster care. We continue to await the findings by Lady Smith. The redress system is in place and there is a lot of activity around this area of work which requires significant input from our social worker within the Scottish Child Abuse team.	Children's Services Management Team; Chief Social Worker	31 March 2024	


SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p>Risk cause Population growth in Midlothian over the next 10 – 15 years will see Midlothian become the fastest growing Council in Scotland. Ages. 0-15 population increase, projected at 20% and 75+ population increase projected to increase by 100% between 2014 and 2039.</p> <p>Risk event Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>Risk effect Inadequate capacity within the school estate to cope with the projected increase in pupil numbers. In sufficient provision to support an aging population placing costly inefficiencies on other parts of the care sector. General population increase placing additional demand on infrastructure including GP services. Increased pressure on infrastructure, services e.g., waste collection and growth of road network as new development roads are adopted.</p>	Head of Adult and Social Care; Director of Education; Chief Executive; Executive Director Place; Joan Tranent	<ol style="list-style-type: none"> 1. Local development plan and supplementary guidance on developer contributions. 2. Services planning future service provision on the basis of anticipated service demands 3. The change programme 4. Learning Estate Strategy 5. Capital Plan Prioritisation 6. Strategic Housing Investment Strategy 7. Rent Review Strategy 8. Joint needs assessment used to develop - IJB Strategic Plan 9. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 10. City Deal provides the opportunity to support inclusive growth. 	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.16.0 1	Capital Programme	Q1 23/24: The Capital Plan in its current format is unaffordable due to rising costs of construction, inflation and EU-Exit/post pandemic and other economic pressures. A review of the Capital Plan is underway to determine affordability, prioritisation and options presented to members for consideration in Q2 2023/24.	Director of Education; Executive Director Place	31-Aug-2023	

		Q4 22/23: A number of prioritised Learning Estate strategy projects are not funded within existing Capital Programme, some have external funding which is at potential risk. Q3 22/23: Capital Plan prioritisation also includes Learning Estate Strategy expanded to meet statutory requirements Q2 22/23: Latest roll projections indicate that that we will breach capacity in some schools in Aug 2023. Capital programme updated based on outcome of review of Learning Estate Strategy underway			
SRP.RA.16.0 2	Capital Plan reprioritisation	Q1 23/24: update as above Q3 22/23: In light of rising costs through inflationary impacts, EU Exit and post pandemic economic shifts, work is ongoing to review the current capital plan and reprioritise the programme. This will be reported to Council in Q4 22/23 for review and approval.	Executive Director Place, Executive Director Children, Young People and Partnerships, Chief Finance Officer, Head of Development	31-Mar-2023	


SRP.RR.17 UK Decision to leave the EU

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	Risk cause UK vote to leave the European Union Risk event UK leaving the European Union Risk effect The impacts associated with the UK's decision to leave the UK have yet to be realised and will only become clear once the final terms of the UK's departure are finalised. There are some direct potential impacts such as an end to EU funding of Council co-ordinated projects and indirect impacts on industries undertaken within the geographical area which have relied on EU funding, such as agriculture. There are wider potential implications arising from uncertainty regarding the resident status of EU nationals, post any exit agreement, and the availability of workers from outside the UK accessing the job market here in the future. These factors have the potential to impact on the availability of the right people with the right skills being available to help grow the economy here in Midlothian. One area this could affect the Council could be in the delivery of future building projects within Midlothian which could curtail	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships	01 – Risk and Resilience Group 02 – Taking a risk management approach to identifying and assessing anticipated impacts 03 – Working with a range of national and local bodies to inform preparatory arrangements. 04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.	4	5	



	further economic growth.				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.17.01	Refresh of Economic Strategy	Q2 22/23: Report recommendations agreed by Council in Oct 2022. Work is now underway to refresh the Economic Strategy by March 2023	Chief Officer Place	31 Aug 2023	


SRP.RR.19 Health & Safety

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.19	<p>Risk cause Failing to identify and rectify non-compliance with Health and Safety regulations.</p> <p>Risk event Employees required to undertake tasks they are not competent to. Statutorily driven health and safety protective arrangements for service users and employees not implemented correctly. Non-compliance with policy and procedure Not undertaking audits and inspections to confirm adherence to policy and legislative requirements.</p> <p>Risk effect Serious injury of ill health impact on employees and or service users. Negative impact on outcomes for customers/service users. Service users and employees exposed to hazards where statutory requirements exist. Statutory health and safety - duty of care over services users and employees not met. Criminal prosecution of the Corporate body and or individuals through Corporate Homicide (Corporate Manslaughter) Significant financial penalties from Criminal Prosecution.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships; Protective Services Senior Manager; Health, Safety and Resilience Manager	<p>1 - Health Safety and Wellbeing Strategy</p> <p>2 - Suite of Health and Safety Management Arrangements developed setting out council response to statutory obligations (Revised 2021)</p> <p>3 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers</p> <p>4 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency</p> <p>5 - Comprehensive training programme in place to support those with responsibility for managing health and safety.</p> <p>6 - Guidance and Risk assessment templates to support COVID 19 response.</p> <p>7 - Use of comprehensive audit programme to confirm the application of agreed management Arrangements and Council Policy.</p> <p>8 - New risk assessment guidance and support for managers rapidly deployed in response to COVID 19 in line with associated Scottish Government guidance.</p>	3	5	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
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SRP.RA.19.0 1	Delivery of Health, Safety and Wellbeing Strategy	<p>Q1 2023/24 Implementation of the 23/24 Protective Services Health, Safety & Resilience Service Plan has commenced Note the Health Safety & Resilience Team Service Review is scheduled to commence in Q2 Q4 22/23: A Health, Safety & Resilience Service Plan, 2023/24 has been drafted and is being implemented. Q3 22/23: Health, Safety and Resilience Manager started 9 January 2023. Q2 22/23: Appointment made for Team Manager Health, Safety & Resilience. Due to take up post in Jan 2023.</p>	Chief Officer Place; Edel Ryan	<p>31 March 2024</p> <p>31-Mar-2023</p>	
SRP.RA.19.0 7	H&S audit across all Council estate	<p>Q1 23/24 Zurich Insurance high level audit of H&S scheduled for July 2023. Recommendations will be implemented where necessary Q4 22/23: Health, Safety and Resilience Service Plan's revised suggested approach – Training, Self-Assessment and Audit. Zurich Insurance high level audit of H&S due to start in July 2023. Q3 22/23: Zurich rolling out training across the Council Q2 22/23: Protective Services and Property Service are progressing a Health and Safety building audit across the full Council estate, which will inform the development of associated action plans taking a risk based assessment of the findings. Asbestos inspection programme commenced with first round of inspections focussed on the learning estate over the summer holiday period. Review of arrangements for first aid and fire warden provision commenced.</p>	Chief Officer Place	31 – March - 2024	


SRP.RR.20 Early Years Expansion (1140 Hours)

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.20	<p>Risk cause Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. Ages. 0-15 population increase, projected at 20% in addition the Scottish Government has made a commitment to increase the current provision of free early years care from 600 to 1140 hours.</p> <p>Risk event Failure to resource and plan for these rises will significantly impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>The sustainable rate review may lead to significant increase in funding to providers; maintaining current rate is not an option if not deemed sustainable. The result could lead to a funding gap in future years.</p> <p>Risk effect</p>	Chief Executive; Executive Director Place; Executive Director Children, Young People and Partnerships; Chief Finance Officer	<ol style="list-style-type: none"> 1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy 4. School Roll Projections to be reviewed and updated 5. Business Support and Finance Business Partners reviewing external funding landscape closely for future funding options 	4	5	


	Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools Potential for additional unfunded request to place 4 year olds with August to December birthdays requesting additional year of 1140 hours, not currently funded by Scottish Government.					
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RR.20.0 1	1140 future years funding	Q1 23/24 Draft guidance from SG. Enhanced guidance due re sustainable rate but no additional funding for LAs Q4 22/23 Projects have been reviewed and rationalised to reflect the Learning Estate strategy, regular updates provided to Scottish Futures Trust. Sustainable rate discussions continue at a national level. Impact of uncertainty at a local level is a concern and may have a negative on provision. Q3 22/23: No change – awaiting outcome of funding position Q2 22/23: Potential increased costs associated with paying a sustainable rate to partner providers may place further pressure on containing service delivery costs within available funding. Scottish Government funding for 2023/24 will be known during Q3.	Executive Director Children, Young People and Partnerships, Chief Finance Officer	August 2023 31-Mar-2023	

SRP.RR.21 Cyber Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	Risk Cause: Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices Risk Event: The Council is at significant risk of cyber-attack from Ransomware Phishing Emails, Advanced Persistent Threats (APT) and Distributed Denial of Service Attacks (DDOS) attacks. Hacking and Social Engineering. Risk Effect: Access to Council systems by cyber criminals and foreign intelligence agencies for financial, commercial or information gathering reasons. This could lead to significant financial losses, data compromise and subsequent regulatory sanction if our technical and	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief	1. Implementation of and compliance with the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network (PSN) Certification 4. Appropriate technical and organisational measures deployed to reduce the likelihood and impact of an attack 5. Employing an Information Governance and Security Lead 6. Implementing Scottish Government Cyber Security Action Plan 7. Creating a Midlothian Cyber Defence Action Plan. 8. Adoption of the NCSC (National Cyber Security Centre) Active Cyber Defence programme	3	5	

	organisational measures are deemed insufficient. Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.	Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, Head of Development, Senior Manager Protective Services, Health, Safety & Resilience Manager				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.21.1	Appropriate Technical and Organisational Measures	<p>Q1 23/24</p> <ol style="list-style-type: none"> 1. Achieved Cyber Essentials Plus Certification 2. Preparations completed for Q2 2023/2024 PSN Certification, including submission to Cabinet Office. 3. Provided significant Information Governance and Security advice for the deployment of M365 and Google Workspace 4. Responded to numerous threat alerts to ensure the security of the Council's network 5. Engaged with Cyber Incident Response company to review the Council's Cyber Incident response capability in Q2 <p>Q4 22/23: Action/mitigation includes:-</p> <ol style="list-style-type: none"> 1. Appointment of Principal Data & Information Officer to implement best practices for security and information governance through configuration of new Microsoft modules 2. Staff phishing exercise completed 3. Cyber security training software implemented via MS Teams and deployed 4. Preparations completed for Q1 2023/24 PSN Audit/ Penetration Testing, and Cyber Essentials certification 5. Patching / server upgrades across various applications to ensure potential security vulnerabilities are closed 6. Continued engagement with NCSC and other public sector bodies to identify, share and implement any emerging cyber security best practices 	Chief Digital Officer; Cyber Security, Information Governance and Compliance Manager	31-Mar-2024	

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.12	<p>Risk cause The UK is currently facing an unprecedented storm of increasing prices, bills and tax. The 40 year high inflation rate of 9% is the main driver of the cost of living crisis which has outstripped wage and benefit increases.</p> <p>Risk event Rapid ongoing rise of energy prices (gas, electricity and fuel) as well as food and drink prices.</p> <p>Risk effect The impact on households is already being noted with 87% of adults in the UK reported an increase in their cost of living in April 2022 (Office for National Statistics; Francis-Devine et al, 2022). The price rises will impact low-income households the hardest as a larger proportion of their bills are on energy and food. The Resolution Foundation estimates an extra 1.3 million people will fall into absolute poverty in 2023, including 500,000 children.</p>	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care	<ol style="list-style-type: none"> 1. Council Cost of Living Task Force to oversee the Council's response to the crisis 2. Allocation of LACER funding to support those most affected 3. Strategic Evaluation Partner appointed to create poverty profile 4. Community Planning Partnership has established a Midlothian Strategic Poverty Prevention Group co-chaired by Council Leader and Director of Public Health 5. New Child Poverty chair and lead appointed (Executive Director Children, Young People and Partnerships) 6. Child Poverty self-evaluation underway with Improvement Service 	3	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.12.1	Cost of Living Task Force	<p>Q1 23/24: Meetings continuing</p> <p>Q3 22/23: Establishment of Warm and Welcoming Hubs in Lasswade and Newbattle libraries for the winter</p> <p>Q2 22/23: The Council agreed to establish a Cost of Living Crisis Task Force at its meeting on 28 June 2022 and is now meeting fortnightly. Membership is drawn across CMT, cross party member representation and NHS.</p>	Chief Executive	Ongoing	
SRP.RA.12.2	LACER funding	<p>Q2 22/23: Identification of 15 trusted partners to distribute funding in communities for food and fuel, wash and dry provision and support to establish re-heatable food initiatives.</p>	Lifelong Learning and Employability	31 March 2023	


Strategic Opportunities

SRP.OP.01 Shawfair

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The delivery of a new sustainable low carbon community at Shawfair.	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Senior Manager Planning, Sustainable Growth and Investment	<ol style="list-style-type: none"> 1. Shawfair Landowners Group meets quarterly. 2. Legal agreement with developers to secure developer contributions (Section 75) towards infrastructure. 3. Approved masterplan and design guide for the entire community 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision, currently not reflected in Capital Plan 7. New Primary schools 8. Public Transport infrastructure including railway station. 9. Midlothian Energy Ltd (Joint Venture between MLC and Vattenfall) 	5	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
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SRP.OP.02 Borders Rail

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Passenger numbers after three years of operation are above projections. The railway has been, and continues to be a catalyst for economic development, access to training and labour markets, tourism growth, environmental improvements must notably in town centres, and access to the countryside.	Chief Executive, Executive Director Place, Chief Officer Place	<ol style="list-style-type: none"> 1. Monitored by Economic Development. 2. Maximising the Impact: A blueprint for the Future - published by the blueprint group involving Scottish Government, Scottish Borders, Midlothian and City of Edinburgh Council, Transport Scotland, Scottish Enterprise and Visit Scotland. The document sets out the ambitions of the partners to realise the full potential of the new Railway. 3. Timely submission of bids for approval by the Blueprint Group 4. Close monitoring of approved funded projects. 5. Borders rail subgroup chaired by Midlothian Council Chief Executive. 	5	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status


SRP.OP.03 Easter Bush - Penicuik

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.03	One of Midlothian's largest and most significant employment areas. Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. Need to secure long-term strategic road access to ensure continued growth.	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Development	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including Science Technology Engineering and Mathematics (STEM). 2. Land allocated for expansion. 3. Midlothian Science Zone. 4. City Deal funding to provide for growth and strategic road access.	5	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A 2	A701/A702 Trunk Road Improvements	Q4 22/23 The funding gap associated with this project is estimated to be £33.2m. Midlothian Council submitted an application to the UKG Levelling Up Fund (LUF) to attract alternative funding into the project to close this gap. The application was unsuccessful. Alternative funding opportunities and means to phase and prioritise the programme are currently under consideration. A revision to alignments due to landfill avoidance and required increase in roundabout sizes at Bush Loan and the A702 Spur Road junctions was made to the specimen design. This is progressing with the target of submitting a planning application Q1 2024.		31- March - 2024	

SRP.OP.04 City Deal



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.04	South East Scotland Region City Deal - a bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation. 200 Council Houses linked to the City Deal.	Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships,	1. City Deal signed in August 2018. 2. Maintain strong Midlothian involvement through the City Deal governance structure. 3. Midlothian City Deal Key Officer (Internal) Group. 4. Securing best arrangements for Midlothian through close liaison with partners and conclusion of business cases.	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.04.02	Realisation of outcomes of respective work streams	Q1 23/24: Work continues on the relevant programmes. Q3 22/23: Midlothian has now completed its year as chair. Work continues on the relevant programmes. Q2 22/23: For the 2022 calendar year Midlothian is the chair of the CRD programme (annual rotation across the six Local Authorities).	Executive Director Place	31-Mar-2024	


SRP.OP.05 Growing Council



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	Midlothian Council has been identified as the fastest growing Council's in Scotland. This brings the opportunity	Chief Executive, Executive	1. Community Planning Partnership 2. The Single Midlothian Plan	5	5	

	<p>to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.</p> <p>This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing bracket, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.</p>	<p>Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships,</p>	3. Strategic Housing Investment Plan (SHIP)			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.16.0 1	Capital Programme	<p>Q4 22/23 Funding of statutory learning estate projects is required and not currently reflected in the Capital plan putting projects at potential risk,</p> <p>Q3 22/23: Capital Plan prioritisation also includes Learning Estate Strategy expanded to meet statutory requirements.</p> <p>Q2 22/23: Latest roll projections indicate that that we will breach capacity in some schools in Aug 2023. Capital programme updated based on outcome of review of Learning Estate Strategy underway</p>	Director of Education; Executive Director Place	31-Aug-2023	
SRP.RA.16.0 2	Capital Plan reprioritisation	<p>Q1 23/24: The Capital Plan in its current format is unaffordable due to rising costs of construction, inflation and EU-Exit/post pandemic and other economic pressures. A review of the Capital Plan is underway to determine affordability, prioritisation and options presented to members for consideration in Q2 2023/24.</p> <p>Q3 22/23: In light of rising costs through inflationary impacts, EU Exit and post pandemic economic shifts, work is ongoing to review the current capital plan and reprioritise the programme. This will be reported to Council in Q4 22/23 for review and approval.</p>	Executive Director Place, Executive Director Children, Young People and Partnerships, Chief Finance Officer, Head of Development	31-Mar-2023	

SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	<p>The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty.</p> <p>Risk event: The Phase 2 <i>Equipped for Learning</i> plan has a strong focus on transforming classroom practice and learner outcomes. This can only be achieved if effective technical support for EFL is in place to support this change.</p> <p>Programme is at risk of succeeding due to escalating inflation costs and resultant pressure on the overall capital plan budget, as well as resourcing to deliver Learning Estate programme.</p> <p>Risk Effect: Without the technical support and appropriate infrastructure we will not achieve the change resulting in a negative impact on learners experiences and outcomes</p>	<p>Chief Executive, Executive Director Children, Young People and Partnerships, Executive Director Place, Director Health and Social Care, Head of Adult and Social Care; Chief Officer Corporate Solutions; Chief Finance Officer, Chief Officer Place, Chief Operating Officer Education, Chief Officer Young People and Partnerships, Head of Development</p>	<ol style="list-style-type: none"> 1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. Beeslack Replacement High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets 4. Accelerating our ambition – Digital Strategy 5. Review of Digital team to support Digital Centre for Excellence 	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	Q1 23/24: CivTech project successfully completed the pre-contractual agreement stage. Further grant funding from SFT has enabled continuation of development of the platform and insights in Midlothian schools and expansion to incorporate monitoring and insights into Dalkeith office buildings. The project has been selected to present again at the Learning Places Scotland conference and is engaging with the Scottish AI Alliance.	Executive Director Children, Young People and Partnerships	31-Aug-2023	
SRP.OP.A.07.03	Equipped for Learning	Q3 22/23: Appointment made for Google Administrator and commenced 4 Jan 2023. Q2 22/23: Recruitment has commenced for the Google Administrator post which will provide additional capability and enhance the programme delivery	Executive Director Children, Young People and Partnerships	31-Dec-2022	

Audit Committee Annual / End of Term Report 2022/23

Report by Chair of the Audit Committee

Report for Decision

1 Recommendations

The Audit Committee is asked to approve the Audit Committee Annual / End of Term Report 2022/23 (Appendix 1) and its self-assessments using the CIPFA Audit Committees Guidance (Appendices 2 and 3), and agrees that the Audit Committee Annual / End of Term Report 2022/23 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 / End of Term Report 2022/23, which sets out how the Audit Committee has performed against its remit and the effectiveness of the Audit Committee in meeting its purpose based on the annual self-assessments of the Committee against best practice, and provides assurances to the Council.

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 Chartered Institute of Public Finance and Accountancy (CIPFA) Audit Committees Practical Guidance for Local Authorities and Police 2022 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) includes the production of an annual report on the performance of the Audit Committee for submission to the Council. The Audit Committee Annual / End of Term Report 2022/23 is appended to this report as Appendix 1 for consideration. Midlothian Council adopts the 2022 revisions to this best practice.

Date 13 September 2023

Report Contact on behalf of the Chair of the Audit Committee:

Duncan Stainbank Tel No 01620 827353

duncan.stainbank@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.
- 3.3** 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 / End of Term Report 2022/23 and Self-Assessments

- 4.1** 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 25 January 2022 facilitated by the Chief Internal Auditor. A further self-assessment has been completed in August 2023 by the Chair of the Audit Committee and the Chief Internal Auditor and these are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration.
- 4.2** 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:
- A private meeting of all Committee members with external audit and the Chief Internal Auditor should be arranged on an annual basis moving forward.
 - Despite a recruitment campaign in May 2022 the committee does not include two lay/co-opted independent members in accordance with the CIPFA Guidance, consideration of any other routes to recruit independent members should be given.
 - A review of any ongoing training needs of Committee members covering the core areas set out in the 2022 CIPFA Guidance.
- 4.3** The Audit Committee Annual / End of Term Report 2022/23 is appended to this report as Appendix 1 for consideration. Midlothian Council continues to adopt this best practice. It is designed both to provide assurance to full Council and to share lessons learned and areas of improvement to inform the new Audit Committee post local elections in May 2022 to enhance the Audit Committee's effectiveness as a scrutiny body.

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 / End of Term 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 / End of Term 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)

5.6 Appendices

Appendix 1 – Audit Committee Annual Report 2022-23

Appendix 2 – Self Evaluation CIPFA Good Practice Checklist 2022-23

Appendix 3 – Effectiveness Self Evaluation 2022-23

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 / End of Term 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.

**MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL/END OF TERM REPORT FROM THE CHAIR – 2022/23**

This annual/end of term report has been prepared to inform the Midlothian Council of the work carried out by the Council's Audit Committee during the year 2022/23. The content and presentation of this report meets the requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2022 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 to share lessons learned and areas of improvement to inform the new Audit Committee post local elections in May 2022.

Meetings

There were meetings of the Audit Committee 5 times during the financial year which included meetings on 29 June, 27 September, 6 December 2022, 7 February and 7 March 2022 to consider reports pertinent to the audit cycle and its terms of reference. Additionally at the start of the 2023/24 financial year a meeting has been held on the 26 June 2023.

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 2021/22 at its meeting on 29 June 2022, and for 2022/23 at its meeting on the 26 June 2023 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. Members of the Audit Committee have continued to be involved in the ongoing BMS review and have requested a report to be provided to the Audit Committee. The Audit Committee scrutinised the unaudited Annual Accounts 2022/23 of the Council at its meeting on 26 June 2023 the chair contributed several suggestions. It reviewed the final audited accounts for 2021/22 at its meeting on 27 September 2022, alongside the External Audit report on their annual audit 2021/22 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 Chief Officer Place during the year on strategic risks and mitigations. 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) and monitored on the Action Log. There is a dependency on this to enable Audit Committee oversight of Risk Management Framework to ensure it is able to demonstrate its effectiveness in carrying out its remit.

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 associated with the refreshed Counter Fraud Policy and Strategy approved by Council in August 2020.

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. This scrutiny occurred during 2022/23 at Audit Committee meetings including the Annual Treasury Management Outturn Report 2021/22 in June 2022, the Treasury Management Mid-Year Review Report 2022/23 in December 2022, and the Treasury Management and Investment Strategy 2023/24 & Prudential Indicators in January 2022.

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 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 (May 2022), being five Members of the Council. A recruitment advert for an Independent Audit Committee Chair and Member was issued in May 2022, however no candidates applied for these positions, as a result agreement to rotate the Chair across the three political parties was agreed. The lack of independent members does not comply with the CIPFA Position Statement which recommends that each authority audit committee should include at least two co-opted independent members. However, this situation is similar to many Local Authority Audit Committees.

The Committee membership during the year included Councillors W McEwan, S McKenzie, D Milligan, E Scott and P Smaill (Chair).

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

Member	29 June 2022	27 September 2022	6 December 2022	7 February 2023	7 March 2023
Cllr W McEwan	√	√	√	√	√
Cllr S McKenzie	√	√	√	√	√
Cllr D Milligan	√	√	√	√	√
Cllr E Scott	√	√	√	√	√
Cllr P Smaill	√	√	√	√	√

Every Audit Committee meeting in 2022/23 was quorate and attended by all members.

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/Audit Scotland), 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

An annual self-assessment was carried out by members of the Audit Committee on 25 January 2022 during a Development 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/high degree of compliance against the good practice principles and an improving and 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, to complement the Induction Programme following the Local Government Elections in May 2022, at an appropriate time in line with the Audit Cycle to support new and continuing members to fulfil their remit.
- Continue to obtain feedback on its performance in fulfilling all aspects of the Committee's remit from a range of Executive Directors and others who interact with the Committee to support continuous learning and improvement.
- Review and scrutinise the revised Risk Management Policy and Strategy (expected in March 2022). It is important that the Audit Committee is given the opportunity to regularly scrutinise the Council's Risk Management Policy and Strategy (Risk Management Framework). This enables the Audit Committee to fulfil its oversight role to monitor the effective development and operation of risk management consistently across the Council and an Area where the Audit Committee can add value by supporting improvement (No. 3 - Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks).
- Continue to rely on the knowledge of those members appointed to other Committees, to evaluate their effectiveness in fulfilling 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. Ensure that the Members on the Audit Committee and Council receive Briefings and Refresher sessions on this technical area of business of Treasury Management and Investment and Prudential Indicators to enable them to consider reports for scrutiny and decision respectively.
- Continue to ensure appropriate scrutiny and challenge on its Action Log to ensure that Audit Committee recommendations have been recorded and monitored to ensure they are 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.

These actions have all been implemented and the Committee have had further briefings in addition to the Induction programme when relevant. A further self-assessment of the Audit Committee has been completed by the Chief Internal Auditor in conjunction with the Chair of the Audit Committee in August 2023 to update the assessment based on the revised CIPFA Audit Committee Guidance 2022. This statement demonstrated full compliance with the majority of the Guidance with the exception of the following improvements that will be taken forward during 2023/24:

- A private meeting of all Committee members with external audit and the Chief Internal Auditor should be arranged on an annual basis moving forward.

- Despite a recruitment campaign in May 2022 the committee does not include two lay/co-opted independent members in accordance with the CIPFA Guidance, consideration of any other routes to recruit independent members should be given.
- A review of any ongoing training needs of Committee members covering the core areas set out in the 2022 CIPFA Guidance.

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 enhanced effectiveness to fulfil its scrutiny and challenge role.

Peter Smaill
Chair of Audit Committee
26 September 2023

Midlothian Council Audit Committee – self-assessment of Good Practice at August 2023

Audit committee purpose and governance	Yes/Partly /No	Comments
Does the authority have a dedicated audit committee?	<input type="checkbox"/> Yes	The Council's Scheme of Administration approved in May 2022 lists the composition of the Council and its various Committees, including the Audit Committee.
Does the audit committee report directly to full council?	<input type="checkbox"/> 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.
Has the committee maintained its advisory role by not taking on any decision-making powers?	<input type="checkbox"/> Yes	Yes the Committee has no direct decision making powers.
Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?	<input type="checkbox"/> 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.
Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?	<input type="checkbox"/> 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 escalate issues and concerns promptly to those in governance and leadership roles?	<input type="checkbox"/> 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.
Does the governing body hold the audit committee to account for its performance at least annually?	<input type="checkbox"/> 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.

Midlothian Council Audit Committee – self-assessment of Good Practice at August 2023

Functions of the committee	Yes/Partly /No	Comments
Does the committee publish an annual report in accordance with the 2022 guidance, including:		
compliance with the CIPFA Position Statement 2022	Yes	See Appendix 1 evaluation against the statement does not have access to independent members despite recruitment campaign.
results of the annual evaluation, development work undertaken and planned improvements	Yes	See Appendix 1 evaluation of previous issues.
how it has fulfilled its terms of reference and the key issues escalated in the year?	Yes	
Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?		
<ul style="list-style-type: none"> Governance arrangements 	Yes	Functions in Terms of Reference Nos. 1, 3 & 4
<ul style="list-style-type: none"> Assurance framework 	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.
<ul style="list-style-type: none"> Internal audit and Internal Control Arrangements including: <ul style="list-style-type: none"> Financial management Value for money Ethics and standards Counter fraud and corruption 	Yes	Functions in Terms of Reference Nos. 13-24 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.
<ul style="list-style-type: none"> External audit 	Yes	Functions in Terms of Reference Nos. 25-29

Midlothian Council Audit Committee – self-assessment of Good Practice at August 2023

Functions of the committee (cont'd)	Yes/Partly /No	Comments
<ul style="list-style-type: none"> Risk management arrangements 	<input type="text" value="Yes"/>	Functions in Terms of Reference Nos. 6-8
<ul style="list-style-type: none"> Annual Governance Statement 	<input type="text" value="Yes"/>	Function in Terms of Reference No. 5
<ul style="list-style-type: none"> Assurance framework 	<input type="text" value="Yes"/>	Functions in Terms of Reference Nos. 9-11
Over the last year, has adequate consideration been given to all core areas?	<input type="text" value="Yes"/>	Reports have been received that cover all core areas at meetings of the Committee. .
Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?	<input type="text" value="Yes"/>	The Audit Committee has only considered items that align with its core functions.
Has the committee met privately with the external auditors and head of internal audit in the last year?	<input type="text" value="No"/>	Due to the change of both Chief Internal Auditor and external audit the committee has not yet met privately, this will be arranged to be completed within 2023.
Has the committee maintained its non-advisory role by not Has the Committee been established in accordance with the 2022 guidance as follows:		
Separation from the Executive	<input type="text" value="Yes"/>	Whilst during the year the committee membership included cabinet members this has been resolved with new membership.
A size that is not unwieldy and avoids the use of substitutes	<input type="text" value="Yes"/>	Regular attendance by all members without substitutes evidences compliance.
Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation.	<input type="text" value="No"/>	Despite a recruitment campaign lay members have not been successful in identifying and independent members for the Committee.

Midlothian Council Audit Committee – self-assessment of Good Practice at August 2023

Membership and support	Yes/Partly/No	Comments
Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled.	Yes	Elected Members on the Audit Committee are selected in accordance with the arrangements set out in the Council's Scheme of Administration. Committee members bring a wide variety of skills, experience and knowledge. Continued further training and development requirements will remain under review.
Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?	Yes	Following the May 2022 local government elections and appointment to the Audit Committee the elected members' induction programme was completed, having assessed the needs of the Council members.
Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?	Partly	Induction training has been provided for all member which covers key areas of the 2022 guidance further review of regular training needs is required.
Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?	Yes	The Committee members have satisfactory level of knowledge and experience in all key areas.
Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	The independent Chair meets with Chief Internal Auditor (CIA) in advance of each Audit Committee meeting and has the option to meet with External Auditors, Audit Scotland, in private. The Chair has a pre-meeting with senior management prior to each Audit Committee meeting to enable wider context of Council business.
Is adequate secretariat and administrative support to the committee provided?	Yes	A Democratic Services Officer is assigned to the Audit Committee.
Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?	Yes	The Audit Committee will continue to obtain feedback on its performance from senior management and the external auditor.
Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?	Yes	As reflected in the Minutes of the Committee.
Are meetings effective with a good level of discussion and engagement from all members?	Yes	As reflected in the Minutes of the Committee.

Midlothian Council Audit Committee – self-assessment of Good Practice at August 2023

Has the Committee maintained a non-political approach to discussions throughout?

As reflected in the Minutes of the Committee.

Effectiveness of the committee

**Yes/Partly
/No**

Comments

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 Chief Officer Place presents quarterly updates to the Committee setting out the corporate risks and mitigations.

Does the committee make recommendations for the improvement of governance, risk and control arrangements?

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.

Do audit committee recommendations have traction with those in leadership roles?

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.

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 2022 'audit committees', the latter enabling evaluation of how effectively it fulfils its Audit functions.

Does the committee have an action plan to improve any areas of weakness?

Yes

As part of its annual self-assessment 2022/23 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/End of Term Report 2022/23.

Has this assessment been undertaken collaboratively with the audit committee members?

No

This assessment has been carried out between the chair and the Chief Internal Auditor a Development session will be arranged for early 2024 to carry out an assessment with all member for 2023/24.



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 in March 2021, and scrutinised AGS within Annual Report and Accounts 2021/22 and 2022/23. Pre-Meet with independent Chair prior to each Committee meeting to provide wider context. Committee supports the role of audit in improving internal control and governance. Committee considers national reports and self-assessment toolkits. Reliance on previous years' informal liaison with other Audit Committees e.g. MIJB.	5 (2021/22- 5)
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.	5 (2021/22- 5)
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.	A revised Risk Management Policy and Strategy was approved by Council in August 2022. The Committee continues to receive quarterly reports from Chief Officer Place on strategic risks and mitigations, with Directors in attendance. An Internal Audit review of risk management is scheduled in the 2023/24 Audit Plan.	4 (2021/22-4)

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
4. Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Reviewing the adequacy of the leadership team's assurance framework. Specifying the committee's 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 which outline Governance and Assurance Framework, in alignment with Audit Cycle. Regular assurance reports provided on internal control, governance & risk management.	4 (2021/22 - 4)
5. Supporting effective external audit, with a focus on high quality and timely audit work.	Reviewing and supporting external audit arrangements with focus on independence and quality. Providing good engagement on external audit plans and reports. Supporting the implementation of audit recommendations.	External Audit Annual Plans and reports are submitted to the Committee and supported to conclusion of recommendations	4 (2021/22–N/A)
6. 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.	5 (2021/22-5)
			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
7. Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	<p>Reviewing how the governance arrangements support the achievement of sustainable outcomes.</p> <p>Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place.</p> <p>Reviewing the effectiveness of performance management arrangements.</p>	Auditors provided audit review on governance arrangements and financial sustainability. Reliance on other Committees fulfilling their remits (Business Transformation Steering Group; Performance, Review and Scrutiny); knowledge from members appointed on those Committees used to evaluate their effectiveness.	(2021/22-4)
8. Supporting the development of robust arrangements for ensuring value for money.	<p>Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee.</p> <p>Considering how performance in value for money is evaluated in Annual Governance Statement (AGS).</p> <p>Following up issues raised by external audit in their value-for-money work.</p>	Auditors provided assurance on value for money arrangements e.g. sustainability, and performance management. AGS sets out the Governance Framework including arrangements for best value.	4 (2021/22-4)
9. Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	<p>Reviewing arrangements against the standards set out in the Code of Practice on Managing the Risk of Fraud and Corruption (CIPFA, 2014).</p> <p>Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks.</p> <p>Assessing the effectiveness of ethical governance arrangements for both staff and governors.</p>	Committee received Counter Fraud Annual Report associated with refreshed Counter Fraud Policy and Strategy approved in 2020. Committee has requested self-assessment of fraud risks and counter fraud controls associated with national reports, and received assurance reports from Integrity Group.	5 (2021/22-5)

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
10. Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Working with key members to improve their understanding of the AGS and their contribution to it. 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 2020/21 including the enhanced Management Commentary for stakeholders. 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.	4 (2021/22-4)

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.

Internal Audit Work to September 2023

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Consider the Executive Summaries of the final Internal Audit assurance reports issued associated with the delivery of the approved Internal Audit Annual Plan 2022/23 and 2023/24;
- b) Note the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal audit Charter; and
- c) Acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide members of the Audit Committee with details of the recent work carried out by Internal Audit and the findings and recommended audit actions agreed by Management to improve internal controls and governance arrangements.

The Internal Audit Annual Plan 2023/24 was approved by the Audit Committee on 7 March 2023. Internal Audit has carried out work associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.

An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

Date 4 October 2023

Report Contact: Duncan Stainbank duncan.stainbank@midlothian.gov.uk

3 Progress Report

- 3.1** The Internal Audit Annual Plan 2023/24 was approved by the Audit Committee on 7 March 2023. Internal Audit has completed the following work in the period from 1 June to 30 September 2023 associated with the delivery of the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.2** The Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017), including the production of this report to communicate the results.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Information Governance
 - Justice Services
 - Licensing
 - Purchase Cards
 - Council Tax Discounts & Exemptions
- 3.4** An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Internal Audit Consultancy and Other Work

- 3.5** Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- a) In its critical friend role provided an independent view and challenge at various forums including: Capital Plan Management Group, Chief Officers Risk & Resilience Group, Integrity Group, UKSPF Oversight Board and Information Management Group.
 - b) Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual audit forums (Computer Audit Sub-group) and meetings; and

c) Monitored publication of Audit Scotland reports.

Recommendations

3.6 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

High: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
Medium: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Low: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.7 The table below summarises the number of Internal Audit recommendations made during 2023/24:

Recs Rating	2023/24 Number of Recs
High	1
Medium	7
Low	25
Sub-total reported this period	33
Previously reported	0
Total	33
Recommendations agreed with action plan	33
Not agreed; risk accepted	0
Total	33

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

4.1 Resource

Resource implications of implementing Internal Audit recommendations are considered as part of the audit process to ensure these are reasonable and proportionate to the risks.

4.2 Digital

There are no digital implications arising from this report.

4.3 Risk

The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. At the start of each audit engagement, to capture potential areas of

risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered. During each audit engagement the management of risk has been tested.

It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made. If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements, and effective management of risks.

4.4 Ensuring Equalities

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

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those within the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its independent and objective assurance about risk management, internal control and governance.

4.5 Additional Report Implications (See Appendix A)

Appendices

Appendix 1 – Information Governance

Appendix 2 – Justice Services

Appendix 3 – Licensing

Appendix 4 – Purchase Cards

Appendix 5 – Council Tax Discounts and Exemptions

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's Internal Audit service provision to assist the Council in achieving its objectives.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives

by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

Implementation by Management of the actions associated with Internal Audit recommendations, that are designed to improve internal control and governance arrangements and management of risks, underpins the Council’s own continuous improvement arrangements to enhance its effectiveness, thus supporting the delivery of the Council’s best value duties.

A.5 Involving Communities and Other Stakeholders

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders.

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. Senior Management relevant to the areas audited have agreed the final Internal Audit assurance reports as set out in the relevant Executive Summary within Appendix 1.

A.6 Impact on Performance and Outcomes

The Findings and Recommendations from Internal Audit work during the year are designed to assist the Council in improving its performance and outcomes.

A.7 Adopting a Preventative Approach

Internal Audit assurance work includes assessments on when a preventative approach can be adopted.

A.8 Supporting Sustainable Development

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

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Information Governance</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 26 May 2023 Draft 16 August 2023 Final</p> <p>Level of Assurance: Satisfactory (Henderson Loggie LLP completed report equivalent to Midlothian Council Audit Substantial)</p>	<p>The EU General Data Protection Regulation (GDPR), which came into force on 25 May 2018 and was enshrined in law as part of the Data Protection Act 2018 (DPA 2018), included an expanded definition of what personal data was, a greater number of specific responsibilities, and implemented significant fines for non-compliance. The EU GDPR no longer applies in the UK after the end of the Brexit transition period on 31 December 2020. With effect from 1 January 2021, the DPPEC (Data Protection, Privacy and Electronic Communications (Amendments etc) (EU Exit)) Regulations 2019 amended the EU GDPR to form a new, UK specific data protection regime that works in a UK context after Brexit to sit alongside the DPA 2018. This new regime is known as ‘the UK GDPR’.</p> <p>Organisations are expected to control ever-increasing data volumes as developments in information technology allow data to be efficiently collected, stored and analysed. This elevates the risks within information management as the scope for mismanagement increases with the volume of data.</p> <p>Modern responses to information risk management include the incorporation of information governance. Good information governance practices take into account several considerations including: storage, communication & transference of information, compliance with laws, training and performance reporting.</p> <p>Storage, communication and transference of information should be supported by a reliable IT infrastructure with developed cybersecurity enhancements. Although ultimately solutions for information storage and communication is highly dependent on organisational needs, nonetheless whether cloud or physical servers are used these should be robust in order to avoid cybersecurity breaches. The storage of both carbon copy and electronic information requires retention schedules to be considered, often this in the form of a centralised list of data assets identifying how long the data asset is kept and when they are expected to be destroyed. Retention schedules are one of the requirements under UK GDPR as personal data is often contained within information held by the organisation.</p> <p>Under UK GDPR organisations are required to provide data subjects access to their personal data when a Subject Access Requests is made. This must be fulfilled</p>	0	3	1	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<p>within one calendar month of the request. Subject Access Requests (SARs) can be resource intensive where multiple SARs are received.</p> <p>The Council has established a robust data protection compliance framework, which includes a suite of policies, procedures, guidance, privacy notices, Information Asset Registers (IARs), data breach and Subject Access Request reporting and monitoring arrangements. A Data Protection Officer (DPO) is in place however the function is undertaken on an interim basis by the Information Compliance Officer who is a contractor with no access to contingency capability.</p> <p>The Henderson Loggie Internal Audit report provided Satisfactory assurance over the adequacy and effectiveness of controls and processes for information governance and the extent to which risks in this area are managed, specifically in the following areas:</p> <ul style="list-style-type: none"> • Policy and procedures; • Roles and responsibilities; • Information requests; • Data processing; • Information communication; • Staff training; and • Management information and reporting. <p>The Internal Audit report on Information Governance made the following recommendations:</p> <ul style="list-style-type: none"> • A timetable should be developed to formal review and update of IARs, DPIAs and Privacy Notices within an achievable timescale. Suitably experienced senior staff within each service area should review the completeness and accuracy of information recorded in the IARs, DPIAs and Privacy Notices and update this information as required. This process should be completed annually and on completion each Executive Director should provide positive statement of assurance to the DPO. (Medium) • A review of the resources available for information governance should be completed in order to provide assurance of appropriate resource coverage in 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<p>Data Protection and Records Management requirements across the Council. (Medium)</p> <ul style="list-style-type: none"> • In line with the approach previously considered by the Council, the establishment of a network of data protection champions should be considered within each directorate to support the information management compliance within services. Specific areas of responsibility for data champions should include: <ul style="list-style-type: none"> ➤ Maintaining the accuracy of IARs; ➤ Assisting with DPIAs and Privacy Notices and ensuring that they remain current and up-to-date; ➤ Assisting in responding to SARs; ➤ Reviewing compliance with retention schedules; and ➤ Providing service specific data protection updates to their relevant teams. <p>A programme of suitable training should be developed to support data champions to be effective in their roles (Medium)</p> <ul style="list-style-type: none"> • An annual Data Protection Compliance report should be developed and formally reported to the CMT and Audit Committee. The report should include relevant data protection progress updates, as well as summarising key compliance metrics and trend analysis relating to data breaches, subject access requests and completion rates for staff training. (Low) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Justice Services</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 26 May 2023 Draft 13 September 2023 Final</p> <p>Level of Assurance: Satisfactory (Henderson Loggie LLP completed report equivalent to Midlothian Council Audit Substantial)</p>	<p>Section 27 of the Social Work (Scotland) Act 1968 sets out requirements for a function to be established within every Local Authority, under Part of the Act, to provide supervision and care of persons put on probation or released from prison. In summary, these requirements include availability of reports to any court, children's hearing (for person 16 and 17 years), procurator fiscal, or the Lord Advocate relating to persons appearing before them. They must also provide support and guidance to persons within the local authority immediately prior to their imprisonment or detention or reside in the area after release from imprisonment or detention. At Midlothian Council, these services are delivered by its Justice Services, led by its Chief Officer, Head of Adult Services, and Group Service Manager for Justice Services. The team act in accordance with court orders provided.</p> <p>In addition, the Social Work Justice Services have responsibilities for supervising Community Payback Orders (CPO) as set out in the CPO Practice Guidance (May 2022). Sections 227A to 227ZO, and Schedule 13 of the Criminal Procedure (Scotland) Act 1995 ("the 1995 Act") provide the legislative framework for CPOs and the role of Justice Services within Local Authorities.</p> <p>Similarly, the MAPPA brings together the Police, Scottish Prison Service (SPS), Health and the Local Authorities, in partnership as the Responsible Authorities, to assess and manage the risk posed for certain categories of offender. Responsible Authorities fulfil their statutory duties by jointly preparing and publishing MAPPA annual reports. Local Authorities manage and supervise those on the Sex Offender Register, however, can also supervise those not yet or removed from the register depending on court orders.</p> <p>The framework, roles and responsibilities for Local Authority Social Work Services in the Scottish Criminal Justice System are set out in the National Outcomes and Standards for Social Work Services in the Criminal Justice System (August 2010). There are three key outcomes for CJSW services: Community safety and public protection; the reduction of re-offending; and social inclusion to support desistance from offending.</p>	0	1	4	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<p>Responsibility for devolved budgets within Justice Services are clearly defined within documentation reviewed and are aligned with expected practice. High level responsibilities for the Health and Social Care Partnership (HSCP) and its Integration Joint Board (IJB) are set out in the Midlothian Integration Scheme (March 2022). The IJB has delegated responsibility to contribute to the achievement of national criminal outcome and the delivery of the Single Midlothian Plan. The documented Justice Services Financial Process (May 2023) details delegated authority for approving spend within the Justice Services team. Income and expenditure is monitored locally by Justice Service management through quarterly financial reports. Budget management is also reviewed by the Head of Adult Services and the HSCP's Chief Officer. Outcomes are monitored by the Chief Social Work Officer (CSWO) to whom the Head of Adult Services deputises. Executive management report to the Council and to the IJB. Commissioning services are established to support delivery of the Justice Service Delivery Plan</p> <p>The Henderson Loggie Internal Audit report provided Good assurance that</p> <ul style="list-style-type: none"> • Responsibility for devolved budgets within Justice Services are clearly defined and financial procedures are being followed in practice in controlling income and expenditure; • There is adequate reporting to Council committees around the work of Justice Social Work Services; and • There is adequate reporting to external bodies (such as the Scottish Government and Midlothian IJB) around the work of Justice Social Work Services (including reporting on unpaid work). <p>Satisfactory assurance that Commissioning and monitoring arrangements for commissioned services are being operated in line with the Council's financial procedures and that Financial record keeping is sufficient to demonstrate that ring fenced funding (such as COVID monies) have been spent in line with the conditions attached to the funding, requires improvement.</p> <p>The Internal Audit report on Justice Services made the following recommendations:</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<ul style="list-style-type: none"> • A process should be developed to update the public contract register on a regular basis, specifically contract renewal details for Cyrenians should also be updated on the public contract register. (Low) • The framework agreements should be utilised to develop a joined up, cross team procurement exercise where terms and conditions with Randstad are refreshed and documented across HSCP teams to ensure value for money is being achieved by all teams.(Low) • Non purchase card holders who approve transactions on Integra should ensure they are aware of their roles and responsibilities on the checks to be completed during sign off on Integra and seek the training where there are gaps in their understanding. (Low) • Section 27 petty cash controls also require to be strengthened to ensure alignment with Council requirements. For example, management should ensure: <ul style="list-style-type: none"> ➤ The use of disbursement logs, ➤ The frequency of reconciliation is in line with the Council's risk appetite, and ➤ Line manager responsibilities for checks on balances and reconciliation and top-up checks are completed and documented. <p>The risks to staff health and safety when transporting cash between the Midlothian Council's bank and the HSCP building require to be assessed. This can be made on monetary value. Good practice would see two officers transporting cash when it is of larger value.(Medium)</p> • Section 27 forms must be uploaded to service user accounts on Mosaic by the Social Workers. Forms can be scanned onsite using printers or via cameras on laptops.A timeline for the scanning and uploading of the backlog of Section 27 Forms onto Mosaic by Business Services should be provided. (Low) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Licensing</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 19 July 2023 Draft 6 September Final</p> <p>Level of Assurance: Substantial for the processing of applications and evidence compilation and processes are in place to receive licence fee income at the appropriate rate. Limited for the governance arrangements in place to support the licensing activity and the ongoing risk-based monitoring arrangements.</p>	<p>The Midlothian Licensing Board are responsible for regulating the sale of alcohol to the public (under The Licensing (Scotland) Act 2005) and certain gambling activities (under The Gambling Act 2005). The Council's General Purposes Committee is responsible for the issue of most other licences such as those issued under the Civic Government (Scotland) Act 1982, the Housing (Scotland) Act 2006 (houses of multiple occupancy), The Caravan Sites and Control of Development Act 1960, and the various animal control licences. The Civic Government (Scotland) Act 1982 includes a wide range of activities such as taxi and private hire vehicles, taxi and private hire drivers, skin piercing, tattooing, second hand dealers, street traders, public entertainment, late hours catering, window cleaners, metal dealers, knife dealers and indoor sports entertainment.</p> <p>The Legal and Governance Manager acts as Clerk to the Licensing Board and has authority delegated by the board to grant certain types of routine licences where no objections have been received for the licence application. Similarly, the General Purposes Committee has granted delegated authority for other types of licences to be approved by senior management where no objections have been made.</p> <p>The day-to-day management of the Licensing Team sits within Protective Services under Health, Safety and Resilience. This team has responsibility for the administration of the majority of Civic Government (Scotland) Act 1982 and Licensing (Scotland) Act 2005 Licences, including the processing of applications, compilation and review of relevant evidence, coordination of responses from consultees, preparation of evidence to submit to the relevant committee (if required) and the issue of the approved licence to the applicant. Whilst Protective Services have been responsible for some licences such as Animal Licensing and Caravan licensing since the introduction of these licences, Civic Government Licensing and Licensing Scotland Act 2005 Licences only recently became Protective Services' responsibility this year. Protective Services have advised that they will review and improve the Council's licensing processes. The administration of Animal licensing and Caravan licensing are managed by Environmental Health Officers.</p>	0	1	13	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<p>Short term lets licensing is also managed under Public Health and Environmental Protection. A system (ESB provided by Pentagull Ltd) was procured to support the implementation of this new licence. The short-term lets licensing scheme is mandatory for all short-term let accommodation across Scotland. The Civic Government (Scotland) Act 1982 (Licensing of Short-term Lets) Order 2021 requires that anyone operating a short-term let before 1 October 2022 must apply for a licence by 1 October 2023 and those who want to set up and operate a short-term let for the first time need a licence issued by their relevant Local Authority before they take any bookings or accept any guests.</p> <p>Licence fee income in 2022/23 was £92,974 for the Licensing Board, £96,111 for Civic Licensing, and £5,423 for Animal Licensing. There was no income for Caravan Licensing in 2022/23 as the licence is for a 4 year period and was last paid by all relevant licensees in 2019/20.</p> <p>Internal Audit considers that the level of assurance is substantial for the processing of applications and evidence compilation and processes are in place to receive licence fee income at the appropriate rate. Assurance is limited for the governance arrangements in place to support the licensing activity and the ongoing risk-based monitoring arrangements. Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • Licensing Board Committee papers should be published on the CMIS system and the Functions Report and Income & Expenditure Statement should be presented to the Board and published on the system. The statement should accurately reflect costs relevant to the LSA 2015. (Low) • Management should ensure the Licensing Forum is reconvened to ensure it is fulfilling its statutory duties. Consideration should be given as to how to manage potential conflicts of interest in terms of Protective Services management coordinating the Licensing Forum. (Low) • An online public register for licences should be established. Management should consider how the Idox Uniform system could be utilised to minimise administration and duplication of effort for the development of the register. (Low) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<ul style="list-style-type: none"> • There is a need to clarify some aspects of the roles and responsibilities for Protective Services and the Clerk of the Licensing Board. (Low) • Procedures should be developed for all licences issued by the Council and risk registers should be updated. (Low) • Licencing data should be reviewed to ensure it complies with the Council's retention policy. (Low) • Application forms should be updated with the Council's Privacy Policy and should be available online for all licences. (Low) • A consistent approach on when insurance is requested from applicants with regard to Civic Government licensing and Animal Licensing should be implemented and an audit trail of checks carried out for person fitness tests and licensing inspections should be retained. (Low) • The Topographical Test for taxi drivers should be reviewed and modernised including the use of online training. Fitness to Drive standards including the requirement to submit medical examinations should be reviewed. (Low) • Management should support the General Purposes Committee in considering whether there is overprovision for taxi drivers and HMOs given the length of time since this was last assessed. Private Hire overprovision should also be assessed as agreed by members of the General Purposes Committee in February 2020. (Low) • Management should review and update the Council's Civic Government licensing conditions and the Public Entertainment section 9 resolution. Appropriate periodic consultation should be established with relevant trades such as taxi and private hire drivers. (Low) • Animal Licencing fees should be reviewed to introduce a tiered approach depending on the complexity of the business. Caravan Licence Fees should be reviewed and included on Midlothian's Fees and Charges Schedule along with all of the Council's other Fees and Charges. (Low) • Review hearings should be held at the Licensing Board for premises that have not paid their renewal fees. (Low) • The role of the Civic Licensing Standards Officer should be delivered and adequate resource allocated to licensing monitoring and administrative 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	support. The scheme of delegation should be updated to include the Licensing Standards Officers for the Civic Government (Scotland) Act 1982 and the Licensing Scotland Act 2005. (Medium)				

Report	Summary of key findings and recommendations	Recommendations			Status																				
		H	M	L																					
<p>Subject: Purchasing Cards</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 31 May 2023 Draft 18 August 2023 Final</p> <p>Level of Assurance: Satisfactory (Henderson Loggie completed report equivalent to Midlothian Audit Substantial)</p>	<p>Midlothian Council’s purchasing cards are Mastercard charge cards supplied by the Royal Bank of Scotland. They are used typically for the purchase of high volume, low value goods and services facilitating less reliance on petty cash. Purchasing cards have the benefit of providing a stronger audit trail and authorisation record through integration with the Council’s finance system, Integra.</p> <p>As at 17 May 2023, 368 purchasing cards were in use and for financial year 2022/23, a total of 19,405 transactions were made using purchasing cards, with a value of £1.410 million in total expenditure.</p> <p>The table below shows the split of Expenditure on the traditional plastic cards by directorate during the 2022/23 financial year.</p> <table><tr><th>Directorate</th><th>No. of Cards</th><th>No. of Transactions</th><th>Total Value</th></tr><tr><td>Chief Executive</td><td>1</td><td>1</td><td>£480</td></tr><tr><td>People and Partnerships</td><td>229</td><td>17,144</td><td>£1,157,504</td></tr><tr><td>Place</td><td>85</td><td>2,260</td><td>£252,405</td></tr><tr><td>Total</td><td>315</td><td>19,405</td><td>£1,410,389</td></tr></table> <p>The Henderson Loggie Internal Audit report provided Good assurance that:</p> <ul style="list-style-type: none">• Adequate policies, procedures, and training are in place and have been provided to all purchase card users;• Purchasing cards are appropriately issued, controlled, and returned in line with Council procedures; and• There is timely payment of the Council’s monthly purchasing card bills.	Directorate	No. of Cards	No. of Transactions	Total Value	Chief Executive	1	1	£480	People and Partnerships	229	17,144	£1,157,504	Place	85	2,260	£252,405	Total	315	19,405	£1,410,389	0	0	4	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.
Directorate	No. of Cards	No. of Transactions	Total Value																						
Chief Executive	1	1	£480																						
People and Partnerships	229	17,144	£1,157,504																						
Place	85	2,260	£252,405																						
Total	315	19,405	£1,410,389																						

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
	<p>The Henderson Loggie Internal Audit report provided Satisfactory assurance that:</p> <ul style="list-style-type: none"> • Transactions are promptly verified on the system by the user with associated proof of purchase documentation correctly attached • Transactions are appropriately authorised in line with Council procedures • There is ongoing monitoring of purchasing card spend throughout the year to ensure that inappropriate expenditure is not incurred and that expenditure is compliant with the Council's policies and procedures <p>The Internal Audit report on Purchase Cards made the following recommendations:</p> <ul style="list-style-type: none"> • A reminder should be issued to current purchase cardholders and authorisers to advise that purchases should be verified promptly, with adequate proof of purchase attached and accurate VAT details recorded in Integra, to allow authorisation within seven days in line with Council procedures. (Low) • Business Applications staff should review the wording on the system generated reminders to cardholders and authorisers when transactions remain unauthorised to establish greater compliance with the authorisation processes. (Low) • A regular quarterly report to the CMT should be established including information under each service management area the number of transactions and value of expenditure through purchase cards that has no supporting evidence or authorisation for review on an aged basis. (Low) • The Procurement team should periodically carry out an analysis of the Council's purchase card spend to identify opportunities for cost savings and to confirm ongoing compliance with Procurement Procedures. (Low) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Council Tax Discounts and Exemptions</p> <p>Category: Assurance – Cyclical</p> <p>Date issued: 1 September 2023 Draft 21 September 2023 Final</p> <p>Level of Assurance: Substantial for complying with relevant legislation. Limited for ensuring adequate evidence is obtained and adequate investigations are undertaken before discounts and exemptions are awarded.</p>	<p>The purpose of the audit was to evaluate the processes in place to ensure that the Council is providing the appropriate Council Tax discounts and exemptions to those households with an entitlement to these discounts and exemptions whilst preventing any error or fraud.</p> <p>Council Tax is a property based tax which contributes towards Council services. Every property is banded (A-H) and each band is calculated as a proportion of band D. The charge is based on two or more adult residents and discounts and exemptions can be applied for single person households, disabled persons and students as well as some other groups. A levy of 200% can be applied on Council Tax charges for properties that meet the long term empty property criteria which became effective from 1 April 2017. Council Tax is administrated through the Open Revenues system. Documentation is recorded on Digital 360 (D360). System calculations (billing parameters, discounts and exemptions) are tested during the annual billing process (before bills are generated for the new tax year) to ensure awards are calculated accurately.</p> <p>The Council collects water and waste charges on behalf of Scottish Water and these charges are incorporated into the bills that are issued to customers. As at 28 July 2023, there were 43,971 properties in Midlothian and 1,122 properties were on the valuation exemption list. The annual charge billed for 2022/23 was £72.886m (£54.881m Council Tax and £18.005m Water and Sewerage) and £68.888m had been collected as at 31 March 2023. Total deductions of discounts and exemptions awarded as at 12 May 2023 was 6.985m (10% of total amount collected). As at 24 July 2023, there was a backlog of 3,912 Council tax cases requiring action (for example assessment required due to a change of circumstances).</p> <p>Internal Audit considers that the level of assurance is substantial for complying with relevant legislation. Assurance is limited for ensuring adequate evidence is obtained and adequate investigations are undertaken before discounts and exemptions are awarded.</p> <p>Inadequate resource within the service, as a result of staff being reallocated to process high volumes of Scottish Welfare Fund (SWF) applications, has resulted</p>	1	2	3	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations.

	<p>in a backlog of cases (approx. 5 months), poor customer service, discounts and exemptions not being reviewed, NFI data matches not being investigated and inadequate quality checking of cases. Letters are issued annually for Single Person discounts and the entitlement to the discount is removed for non-responders. Due to the lack of resource, this was not undertaken last year and although letters were issued this year, reminder letters still need to be issued to customers who have not responded. This may have resulted in financial loss to the Council.</p> <p>A business case for recruiting more staff to administer SWF applications was approved by Council on 29 August 2023. The additional SWF resource will free up existing Revenues Officers to return to processing Council Tax and benefits to address the backlog. Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • The Revenues Service should be appropriately resourced to enable: the single person discount awards to be removed for non-responders; the periodic checking of discounts and exemptions; the quality checking of cases to be resumed; the investigation of NFI data matches; and the backlog of cases to be cleared. (High) • Management should review the current processes for awarding discounts and exemptions and provide guidance to employees detailing the level of evidence and investigation required. Associated procedure notes should be documented. (Medium) • Retention rules for the D360 system should be reviewed for Council Tax records to ensure adequate evidence is retained for Council Tax accounts which are still live. (Medium) • Management should ensure that an employee declaration form is completed by all Revenues employees on an annual basis and a record is retained of employees' / family accounts. (Low) • The formal documentation delegating authority to modify different classes of dwelling exempt from the additional Long Term Unoccupied Premium charge requires to be updated to reflect the current service structure. (Low) • The service risk register requires to be reviewed and updated. (Low) 				
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Council House Building Programme - Progress Update 2023

Report by Kevin Anderson, Executive Director, Place

Report for Information

1 Recommendations

Audit Committee is recommended to:

- a) Note the content of this report and the progress made on Phases 2 to 5;
- b) Note the sites now underway to complete Phase 4 and Phase 5, projected handover programme and progress related to Open Market Purchases;
- c) Note the potential Phase 5 sites currently under consideration to progress; and
- d) Note the projected costs/budget expenditure in this report.

2 Purpose of Report

Following presentation to Council on 10 October 2023, this report updates the Audit Committee on the status of the overall housing programme, on approved sites and proposed new sites for the Council new build affordable housing programme and other initiatives.

Date 29th September 2023

Report Contact:

Name: Greg Vettraino

Contact: greg.vettraino@midlothian.gov.uk

3 Housing Building Programme and Planned Works

3.1 Council Housing Programme – Phase 1 & 2 Sites

Phase 1 provided 864 additional houses within Midlothian over a period of 7 years with a total budget of £108,700,000 and is now complete.

Phase 2 targeted providing a further 412 additional homes within Midlothian within a budget of £77,121,000 funded from the Housing Revenue Capital Account enhanced with Scottish Government grant funding. 489 homes were delivered under the Phase 2 budget by that Phase's conclusion.

3.2 Council Housing Programme - Phases 3 & 4 combined

Phase 3 & 4 funding combined comprises £166,258,000 (£42,208,000 for Phase 3 and £94,050,000 for Phase 4 plus further allocated funding of £20,000,000 plus a further £10,000,000 approved at November 2022 Council).

Due to actual costs being greater than initial estimates, driven by a combination of war in Ukraine, EU exit and Covid-19 impacting on building costs over recent years, the expected number of units to be delivered for the Phase 3 & 4 budgets combined has reduced from 729 to 645 units as detailed in Table 1 below.

Table 1: Phase 3 & 4 Sites reported to Council in 2022/2023

Ref	Location	2022 Position Number of Homes	2023 Position
C450	Buccleuch St (excludes Retail units), Dalkeith	10	10
140	Dalhousie Mains - Springfield, Bonnyrigg	70	70
151	Dandara, Shawfair	18	18
122	Former Co-op site, 83 High St, Bonnyrigg	20	20
116	Newmills Road (former Dalkeith HS), Dalkeith	92	92
131	Burnbrae Rd Hopefield – Co-op, Hopefield	20	20
53	Morris Road, Newtongrange	79	79
149	Barratt, Millerhill/Shawfair (Barratt withdrawal)	33	0
150	Barratt, Roslin Expansion	53	53
130 (1)	Newbattle HS (Phase 1), Newtongrange	90	90
C398/114	Dundas Highbank (Extra Care) St Marys, Bonnyrigg	46	46
32/34	Newbyres, Gorebridge	75	75
109	Conifer Road, Mayfield	72	72
148	Newton Church Road, Danderhall (moved to Phase 5)	23	0
142	Stewart Milne, Shawfair (moved to Phase 5)	28	0
	All (Phase 3 & 4) Sites	729	645

To date, phases 1-4 of Midlothian's affordable housing programme has delivered the following:

Table 2: Delivery to date

Phase	Homes
Phase 1	864
Phase 2	489
Phases 3&4	645
Total	1998

3.3 Council Housing Programme - Phase 5

Current approved budget for Phase 5 is £77.640 million however projected budget variations on previous phases and an increase in the Scottish Government Affordable Housing Supply Programme (AHSP) Grant allocation means that there is potential for a further £5.791 million to be utilised for New Social Housing.

Table 3: Phase 5 Sites

Ref	Location	Number of Homes	Cumulative
155	Crichton Rd Pathhead – SHIP Ref Muir Group, South Tynewater: P41837	11	11
148	Danderhall, Newton Church Road (former leisure centre): P43833	23	34
142	Edmonstone Road, Danderhall (Stewart Milne): P43720	28	62
153	Newtongrange, former Church Hall Site: P43742	6	68
159	Edinburgh Housing Demonstrator Cluster: P43740	9	77
157	Rullion Road, Penicuik: P46386	48	125
158	Auchendinny, Bellway: P43835	71	196
156	Plot AA2/AA3, Newton Church Road, Millerhill, Bellway	34	230
153	Newtongrange, Main Street, former swimming pool	20	250
149	Plot R, Shawfair: was Barratt now Mac and Mic: P42532	33	283
tbc	Plot P, Shawfair, Persimmon Homes: P43738	44	327
	All Phase 5 Sites	TOTAL	327

Town Centre Regeneration

Midlothian Council are also developing plans for affordable housing at the heart of town centre regeneration at Newtongrange village and Dalkeith Town Centre. These plans are currently under development, with design work underway for the former pool site at Newtongrange and a Regeneration Development Framework produced for Dalkeith.

The housing-led regeneration of Dalkeith is not able to call on the General Fund for its delivery. Therefore, plans for housing in the town centre cannot progress until a fully funded delivery plan for initial phases of housing in the town centre is in place.

Current Programme

The current social housing programme for 2023 is tabled below:

Table 4: 2023 Site Progress Update

Ref	Site Name	Enabling works	Main Wks On site	Hand over stage	Handed over
32/34	Newbyres Crescent	75			
116	Newmills Road, Dalkeith			92	
140	Dalhousie Mains, Bonnyrigg				70
53	Morris Road, Newtongrange				79
109	Conifer Road, Mayfield		72		
117	Hopefield Yard, Bonnyrigg				16
122	High Street, Bonnyrigg		21		
130	Newbattle Phase 1		90		
131	Burnbrae, Hopefield			13	10
150	Barratt Homes, Moat View, Roslin		32		21
151	Dandara, Shawfair, Millerhill				18
C450	Buccleuch Street, Dalkeith			10	
142	Stewart Milne, Shawfair, Danderhall		28		
155	Muir Group, Pathhead		11		
C398	Polton Street (St Mary's)		46		
	Totals	75	300	115	214
	Cumulative	75	375	490	704

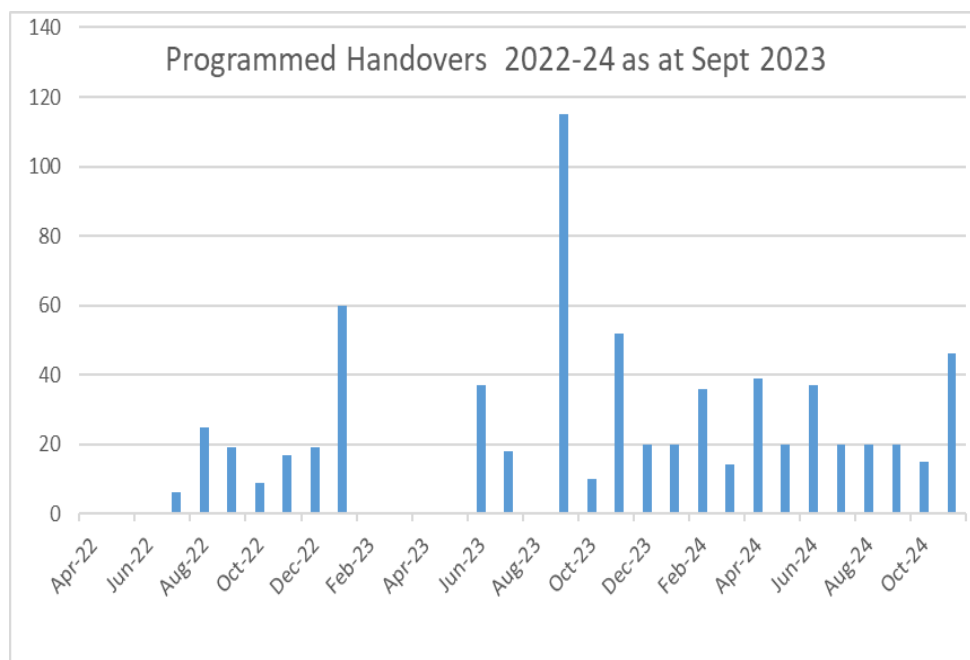
In summary:

- 214 homes have already been handed over in 2023;
- 75 homes at Newbyres are at the enabling works stage with grouting works and retaining wall works completed and market prices being reviewed in October to progress to contract award;
- 300 homes are on site at various stages of construction; and
- A further 115 homes are on site but undergoing final snagging and in the process of final handovers.

Handover Programme

Figure 1 below illustrates the programme of 272 handovers to tenants based on current projected completions within the 2023 calendar year.

Figure 1: Handover Programme



At the Burnbrae site, the first phase of Passivhaus homes (10) have been handed over on 13 Sep 2023 with the remainder expected to be handed over in October. These are in the process of being allocated to tenants.

Buccleuch Street Passivhaus homes (10 or which 6 are built to Passivhaus standard) are to be handed over in October.

3.4 Routes to Development

The sites confirmed as comprising Phase 5 (Table 3) can all be funded through the HRA, following the approval of the Rent Review Strategy. However their delivery is subject to availability of grant through the Scottish Government's Affordable Housing Supply Programme.

There may be potential to bring more sites into Phase 5, however this would only be if there is slippage in the programme from sites already included.

With regard to future potential sites, subject to securing further funding, there are currently 4 known routes to potential development.

Direct build on land already owned by Midlothian.

Available Midlothian land suitable for social housing is now limited. Land that remains is often more difficult to develop in terms of site abnormalities and is often smaller in overall site size and number of units with resultant loss of economies of scale.

Available sites have recently been evaluated for potential inclusion in the Edinburgh Home Demonstrator project procurement initiative (see below). Whilst some sites have been eliminated as being unsuitable others are being looked at for possible inclusion/ feasibility assessment.

To date 3 sites have been confirmed for development, all of which will progress subject to planning and other statutory consents as well as provision of grant funding from the Scottish Government.

- i. Newtongrange Church Hall site - Current proposal is 6 homes (currently 5 approved in principle). This site is being considered for offsite modular construction.
- ii. Eastfield Drive, Penicuik - Current proposal is 4 homes
- iii. Lyne Terrace, Penicuik - Current proposal is 7 homes (however there remains some planning risk against this progressing)

Housing Developer S75 affordable element

The Council has the opportunity to secure affordable housing via a planning obligation secured through Section 75 agreements with developers, securing 25% of the total number of homes built as affordable. As a means to procurement, the Council has the opportunity to either:

- i. enter into land purchase/design & build contracts with these developers or
- ii. purchase completed houses from these developers.

Utilising support from legal and estates colleagues in either scenario with developers has proven to work.

House type and specification varies however between developers, and each requires significant detailed review and discussion in order to ensure these are acceptable to the Council.

Developers are requested to adopt where possible design and specification requirements aligning to those of the Council. There will be instances where housing development team officers will have to make concessions. For example, no developer to date has come forward with the capability to build to Passivhaus standard. Council officers have worked hard however to secure the best result possible in terms of energy consumption and generally obtain energy performance well in excess of the developer's own private housing stock.

Sites with Developers for completed home purchases (turnkey) or Land Purchase/Building Design & Build Contracts are located in Table 5.

Table 5: Homes deliver via Planning Obligations

Midlothian Social Housing - Developer affordable sites update			
Completed			
Ref	Location	Number of Homes	Completed
119	Millers, Shawfair	23	2020
134	Barratts, Paradykes Loanhead	21	Jan-21
144	Barratts, Roslyn	13	May-21
118	Bellway - Danderhall, Shawfair	47	Jan-22
146	Bellway - Wester Cowden, Dalkeith	27	Jul-22
140	Springfield, Dalhousie Mains - Bonnyrigg	70	Nov-22
151	Dandara, Shawfair	18	Jul-23
On site			
Ref	Location	Number of Homes	Handover
150	Barratt, Roslin Expansion	53	Jun - Nov 23
155	Muir Homes, Crichton Road, Pathhead	12	Dec-24
142	Stewart Milne - Shawfair	28	Feb-25
Potential future sites			
Ref	Location	Number of Homes	Handover
156	Bellway AA2/AA3	tbc	tbc
157	Cala - Rullion Road - (Acquisition only)	tbc	tbc
	Bellway Auchendinny	tbc	tbc
	Shawfair Plot R	tbc	tbc
	Springfield (ex Mac & Mic site)	tbc	tbc
	Persimmon Plot P	tbc	tbc

Land acquisition and direct build

Whilst this is an option, finding land available suitable for social housing and affordable to the Council has become a rarity.

Where developers have a land acquisition opportunity to satisfy their Section 75 obligations in relation to affordable homes, this is actively being explored. Land acquisition recently at Rullion Road, Penicuik from CALA is an example of this scenario.

There are currently no other sites currently under consideration by Council officers however opportunities in the marketplace will be actively explored if and when they arise.

3.5 Edinburgh South East Scotland Home Demonstrator Programme

The Council housing development team have expressed willingness for Midlothian Council to be a South East (SE) Partner within the EHD Programme (Pilot 3 element).

It involves a collaborative procurement incorporating several local authorities/RSLs across multiple sites for a feasibility commission initially. This will be carried out utilising a common design team with standardised house types developed to improve efficiencies in production.

The Collaborative Feasibility commission will provide a clear set of deliverables for each site that will create the conditions for successful delivery and bundling.

The City of Edinburgh Council (CEC) have acted as Lead Authority to procure the initial feasibility work for all sites. For the Pilot 3 phase, actual project procurement and delivery of Midlothian EHD allocated sites will be handled by Midlothian Council directly. To become cost effective, off site construction benefits from sufficient volume to offset initial factory tooling and set up costs. It is anticipated that the use of standard design house types, developed through consultation with the various participating authorities, will result in better economies of scale.

The intention is that all partners procure in the same manner. Part of the model is to engage the offsite manufacturer early in the process and the procurement will need to reflect that.

3.6 Zero Carbon

In compliance with the Council's Climate Emergency Declaration, officers developed a new Net Zero Housing Design Guide which incorporates within its design brief the need to target a Zero Carbon approach with an ambitious implementation plan and a requirement to meet Passivhaus standards. Passivhaus is an internationally known standard with exceptionally high energy efficiency working to achieve buildings close to Zero Carbon and in turn address fuel poverty issue (as heating demand is minimised) in a time of ever-increasing fuel bills.

The Development Team has integrated Passivhaus into the social housing procurement programme wherever possible. This has resulted in Midlothian becoming one of the leading providers of new Passivhaus social housing in Scotland. Passivhaus is a fully tried and tested solution with guaranteed performance outcomes.

The following Council projects currently under construction or which will deliver Passivhaus homes are:

Table 6: Midlothian Council Passivhaus Sites

Ref	Location	Number of Homes	Status
C450	Buccleuch St (excludes refurbished homes), Dalkeith	6	Handover Oct 23
122	High Street, Bonnyrigg	20	On site
131	Burnbrae Rd Hopefield – Co-op, Hopefield	20	part handed over – all by Oct 23
130 (1)	Newbattle HS (Phase 1), Newtongrange	90	Enabling wks complete – award imminent
C398/114	Dundas Highbank (Extra Care) St Marys, Bonnyrigg	46	Enabling wks complete – award imminent
148	Danderhall, Newton Church Road (former leisure centre): P43833	23	Awaiting Planning Consent
116	Newmills Road, Dalkeith	2	On site – handover expected Sep/Oct 23
Total		207	

While comparator costs are set out in Table 7 below, the assessment of the specific impact of building to a Passivhaus standard on cost is difficult to ascertain because of the volatile market and high inflation on projects from factors such as Covid-19, EU exit and the war in Ukraine, which have all impacted the construction sector. A direct comparison is not possible as elements such as site abnormalities, which will also impact on the overall development cost need to be extracted from the tenders and any site infrastructure costs.

Table 7: Development Costs – Passive & Non-Passive

Site	Projected Number of Units	Contract Cost	Contract Cost per Unit	Projected Dev Cost	Cost Per Unit
<i>Passivhaus Site</i>					
Site 26 Buccleuch St	10	2,543,000	254,300	3,302,760	330,276
Site 122 Bonnyrigg High Street (all 1 bedroom)	20	5,223,000	261,150	6,480,000	324,000
Site 130 Newbattle	90	25,867,000	287,411	30,731,000	341,456
<i>Non - Passivhaus Site</i>					
Site 109 – Conifer Road*	72	15,236,000	211,611	18,419,000	255,819
Site 116 - Newmills Road	92	19,555,000	212,554	22,719,000	246,946
Site 117 - Cockpen Terrace**	16	3,967,000	247,938	4,840,000	302,500
Site 53 Morris Road, Newtongrange	79	11,685,000	147,911	14,448,000	182,886

**Additional £350k cost expected*

***Cockpen Terrace was built to enhanced energy standards, triple glazing, additional insulation, ASHP, a heat recovery system and multiple PV panels that heat the hot water when there is a surplus of electricity generated by the panels.*

To try and look at this in more detail two sites recently tendered by the same contractor at Newbattle (Passivhaus specification) and Conifer Road Mayfield (Building Regulations silver active standard) were analysed by external cost consultants to try and determine the difference in cost of construction between the two. Following this detailed analysis, it was determined that there very little difference in the tendered build costs between the Passivhaus and Non-Passivhaus. This was deemed inconclusive however as the tenderer subsequently withdrew from the Passivhaus tender process at Newbattle, therefore a final price was not concluded.

3.7 Grant Funding

Officers continue to pursue available grant monies to assist in land purchases/construction of Council housing in Midlothian. More detail on grant funding is available in Midlothian's Strategic Housing Investment Plan. Regular meetings with the Scottish Government are undertaken to update programme and ensure spend is maximised.

The Scottish Government have advised (August 2023) that the 2023/2024 funding requirement for the East of Scotland currently stands at £16.428m however the approved budget at present is £10.534m with the Council's projected funding from that totalling £10.044m.

3.8 Open Market Purchases

Midlothian Council has an Open Market Purchase Scheme whereby ex-council properties are purchased on the open market and returned to use as social rented housing stock. Midlothian Council receives funding towards each Open Market Purchase from the Scottish Government. Between 2017/18 and 2021/22, Midlothian Council bought 98 properties from the open market. There have been 11 successful purchases in the current financial year to date with a target of 26 by March 2023.

4 Report Implications

4.1 Resource

All the costs of employing the necessary members of Housing Development Team staff are included in the project budgets.

Staff resourcing is continually being re-evaluated to ensure that sufficient resources are in place to effectively manage this. Particular emphasis has been placed on recruitment of additional site quality control personnel to ensure build quality remains at the highest standards.

4.2 Risk

The key programme risks for the affordable housing programme are:

- Escalating costs due to inflation in the construction sector.
- Current unavailability of funding through the Housing Revenue Account to support the extension of the programme beyond Phase 5.
- Limited resources within the Development Team to support the delivery of the programme and difficulties in recruitment.
- Potential risk to future funding from the Scottish Government.

Funding

Without further funding the Midlothian new social housing project cannot progress beyond Phase 5.

Recession impacting on developer sites.

There has been a recent dip in house market sales in the private sector which may cause Developers to rethink the viability of their sites and may potentially put sites on hold. If so, potential Midlothian Developer sites for Phase 5 may be at risk of being put on hold.

Scottish Water Capacity issues

Council officers continue to liaise with Scottish Water re future potential Council housing developments and be considered for inclusion in infrastructure capacity upgrades.

Site availability

Midlothian has exhausted the majority of available land that it owns, and which is suitable for housing development. Sites that remain are generally those that had low viability/significant site abnormalities.

The potential remains for further sites to become available via Council building closures.

Covid-19

Currently no significant risk to project delivery is being associated with future Covid 19 outbreaks. This is being monitored however the situation appears to have stabilised.

EU exit

Currently no significant risk to project delivery is being associated with EU exit. The situation appears to have stabilised however it may still be impacting on inflation.

4.3 Single Midlothian Plan

Themes addressed in this report:

- Adult Health Care and Housing
- Sustainable Growth

4.4 Impact on Performance and Outcomes

The proposed works support the Council's Local Housing Strategy and accord with Midlothian Council's Corporate Priorities.

The Scottish Government requires all local authorities to prepare a Strategic Housing Investment Plan (SHIP) that identifies the main strategic investment priorities for affordable housing over a 5 year period. This is required on an annual basis as the Scottish Government requires detail on the Affordable Housing Supply Programme in each regional area towards meeting the national target of supporting new affordable homes.

The SHIP sets out Midlothian Council's approach to promoting affordable housing investment and meeting housing supply targets identified in the Housing Need and Demand Assessment for Edinburgh and South East Scotland.

The delivery of more affordable housing remains a high priority for Midlothian Council. Despite significant investment in affordable

housing there is still a shortage of affordable housing in Midlothian with 4,468 households placed on the Council's Housing List.

4.5 Adopting a Preventative Approach

Reviewing and utilising different procurement options in order to promote early delivery.

4.6 Involving Communities and Other Stakeholders

Consultations internally and externally continue to be carried out with all appropriate stakeholders ensuring input/comment on the proposed layouts / house types and mix. This will be undertaken for the additional sites.

4.7 Ensuring Equalities

An Integrated Impact Assessment (IIA) has been undertaken on the Local Housing Strategy 2021-26 to ensure that the needs of local communities have been fully considered. The Strategic Housing Investment Plan 2024/25 – 2028/29 reflects identified needs and draws on findings from the IIA when considering the implications flowing from the translation of strategic aims into housing policies.

4.8 Supporting Sustainable Development

The new build housing programme will comply with all current building regulations and follows best practice in line with the Council's policies on the environment.

In compliance with the Council's Climate Emergency Declaration, the design brief has been amended to assist in the move to a Zero Carbon approach. We are currently pursuing a requirement to meet Passivhaus standard, an international proven standard which achieves low energy design through its fabric first approach. It also helps address fuel poverty issues as heating demand is minimised, an increasingly important factor with the move away from Natural Gas to electric based heating systems. All projected costs for future developments accommodate the enhanced specification.

The Council's Climate Change Emergency provides that the Council will aim to achieve Net Zero Carbon in all its activities by 2030. The RIBA have published target metrics for domestic buildings which to achieve a 2030 Net Zero Challenge require that new domestic dwellings achieve a target of between 0 and 35kWh/m²/yr. Passivhaus is a means of achieving this target however the construction process itself produces Carbon (so called 'embodied carbon').

Officers are currently considering the implications of reducing embodied carbon which if 2030 Net Zero Challenge is to be met will require a target of less than 300KgCO₂e/m² (embodied carbon per meter squared) to be achieved in construction. Initiatives such as the Edinburgh Homes Demonstrator (EHD) Project previously mentioned,

and the adoption of Whole Life Carbon Analysis may provide the means of achieving these goals.

Fundamental to all new Passivhaus projects will be the need to undertake Post Occupancy Evaluation (POE) surveys to assess how effective projects are achieving these sustainability goals.

Future involvement of Building Maintenance and other stakeholders in all of these initiatives will be fundamental to their success and developing the Council's understanding of the implications of these changes towards achieving Net Zero targets.

4.9 Digital

Building Information Modelling (BIM) is being utilised to deliver the projects. "Revit" models exist for the Council's generic house types and flat types which get updated to reflect new legislation and design criteria. It is proposed that these models will be used for the completion of all Phases (with the exception of some Developer affordable sites where developer house types may have been adopted to allow for inclusivity, or EHD sites)

The adoption of 3d modelling will also have a key role in assessing the sustainability of house designs and key construction approaches particularly in respect avoiding 'cold bridges' which impact on thermal effectiveness and also can be used to assess the embodied carbon content of each element of the construction.

Council officers have been equipped with homeworking IT capability to enable them to continue to work in any changing work practice situation.

Site Quality Inspection staff have all been equipped with SurfacePro tablets instead of laptops to allow them to have the ability to operate these on site and view drawings and make comments on screen much faster and easier. This will in turn provide more effective and efficient delivery of the service.

