

Notice of Meeting and Agenda



Audit Committee

Venue: Virtual Meeting,

Date: Monday, 12 October 2020

Time: 14:00

Executive Director : Place

Contact:

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 of the Meeting of 18 August 2020 submitted for approval 5 - 10

4.2 Action Log 11 - 14

5 Public Reports

5.1 External Audit Annual Audit Report 2019_20 – Report by EY, External Auditors 15 - 72

5.2 Financial Statements for the year ended 31 March 2020 - Report by Chief Officer Corporate Solutions 73 - 186

5.3 Internal Audit Work to August 2020 - Report by Chief Internal Auditor 187 - 204

5.4 Internal Audit Follow-Up of Completed Recommendations - Report by Chief Internal Auditor 205 - 210

5.5 Risk Management, Update for 1 January 2020 – 30 June 2020 - Report by Waste, Risk and Resilience Manager 211 - 270

5.6 Audit Scotland Report Local Government in Scotland Overview 2020 - Report by Chief Executive 271 - 284

5.7 Audit Scotland Counter Fraud Reports - Report by Chief Internal Auditor 285 - 290

6 Private Reports

No items for discussion

7 Date of Next Meeting

The next meeting will be held on Tuesday 8 December 2020 at 11 am

Clerk Name:	Democratic Services
Clerk Telephone:	
Clerk Email:	democratic.services@midlothian.gov.uk

Minute of Meeting

Audit Committee
Monday 12 October 2020
Item No: 4.1



Audit Committee

Date	Time	Venue
Tuesday 18 August 2020	11.00am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

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

In attendance:

Grace Vickers	Chief Executive
Alan Turpie	Legal Services Manager/Monitoring Officer
Morag Barrow	Joint Director Health and Social Care
Gary Fairley	Chief Officer Corporate Solutions
Joan Tranent	Chief Officer, Children's Services, Partnerships and Communities
Derek Oliver	Chief Officer, Place
Jill Stacey	Chief Internal Auditor
Myra Forsyth	Quality and Scrutiny Manager
Stephen Reid	External Auditor, E.Y.
Grace Scanlin	External Auditor, E.Y. (part meeting)
Mark Kenmure	Property Investment Manager
Gareth Davies	Property Manager
Neil Hunter	Property Development Manager
Janet R Ritchie	Democratic Services Officer

1. Welcome and Apologies

The Chair, Mike Ramsay welcomed everyone to the meeting.

2. Order of Business

It was agreed that the Annual Governance Statement previously circulated would be presented prior to the Consideration of Midlothian Council Unaudited Financial Statements 2019/20.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

- 4.1 The minute of the meeting of 22 June 2020 was submitted and approved as a correct record having been proposed by Councillor Muirhead, seconded by Councillor Smaill.

Matters Arising:

- The Chief Internal Auditor advised that with regards to Item 5.4 Counter Fraud Annual Report the revised Counter Fraud Policy Statement and the Counter Fraud Strategy were included on the agenda for the Council meeting schedule for Tuesday 25 August 2020. All to note.
- 4.2 The Action log was submitted and the following noted:
- 1) 'Internal Audit Recommendations': That the expected end date for this action would be amended from June to September. Jill Stacey advised that it was still the intention to provide the two follow up reports therefore one would be presented in September and the other in December.
 - 2) 'Internal Audit Work': That a detailed report would be provided to Elected Members by the Legal Services Manager on the 22 expired contracts – September 2020.
 - 3) Internal Audit Strategy and Annual Plan 2020/21: That the proposed amendments to the Internal Audit Annual Plan 2020/21 would be submitted as part of the Internal Audit Mid-Term Performance Report 2020/21 – December 2020.
 - 4) Local Code of Corporate Governance: The Chief Internal Auditor provided an update on the change of timescale for this action as it had been agreed that some of the revisions would be presented to CMT over the coming months therefore this would not be presented to the Audit Committee until early 2021 prior to going to Council for approval. – January 2021.

- 5) Risk Management Policy and Strategy: That a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy – The Chief Internal Auditor advised that one of the principles within the Local Code or Corporate Governance was the arrangements of managing risks therefore it was proposed that this update would align with the Local Code of Corporate Governance – January 2021.
- 6) Financial Improvement Updates: That regular updates would be provided by the Chief Officer, Corporate Solutions (Section 95 Officer) and that the first update would be provided December 2020.
- 7) Financial Statements 2019/20: That the Financial Statements would be circulated to the Audit Committee when submitted to the External Auditors by 30 June 2020 – completed.
- 8) Financial Statements 2019/20: That a special meeting of the Audit Committee would be arranged to consider the unaudited financial statements – 18 August 2020 – completed.
- 9) Audit Committee Annual Report 2019/20: That the Audit Committee Annual Report would be presented to the Council – on the agenda for the Council meeting scheduled for 25 August 2020 – completed.

5. Public Reports

Report No.	Report Title	Presented by:
5	Annual Governance Statement	Chief Executive
Outline of report and summary of discussion		
<p>This report was presented to the Audit Committee in June in draft form and at that time it was noted that it was subject to change.</p> <p>The Chief Executive presented this report advising that there were two minor amendments to this report one relating to the Covid-19 response which now included the date when the Council resumed its meetings and the other was that an additional area of improvement was added which related to the realigning of dates to ensure reports were considered timeously by both CMT and Audit.</p>		
Decision		
The Audit Committee noted and approved the amendments to the Annual Governance Statement 2019/20.		

Report No.	Report Title	Presented by:
5.1	Midlothian Council Unaudited Financial Statements 2019/20	Chief Officer Corporate Solutions
Outline of report and summary of discussion		
<p>The Chief Officer, Corporate Solutions advised the Committee that he had a short presentation to talk the Committee through the key points from the Accounts Document and introduced colleagues from property services Mark Kenmure, Property Investment Manager, Neil Hunter, Property Development Manager and Gareth Davies, Property Manager.</p> <p>The Chief Officer, Corporate Solutions then shared his Presentation on screen with those present advising that the following areas would be covered during this presentation:</p> <ul style="list-style-type: none"> • Highlights from Accounts • The Regulations and Timetable • The Key Financial Statements • Year-end position – the Balance Sheet, Reserves & Treasury Management • Property Valuation Overview <p>The Chief Officer Corporate Solutions provided the Committee with an overview of each of the areas above assisted by Mark Kenmure on the Property Valuation overview.</p> <p>Councillor Smaill commented positively on the changed format and improved appearance of the Accounts.</p> <p>Thereafter the Chief Officer responded to questions and comments raised by members of the Committee with regards to the valuation of assets and difference of usable reserves and unusable reserves. The Chief Officer also advised that since the unaudited accounts were prepared in June further information has been received from the Scottish Public Pension Authority on the McCloud judgement which indicated that there would be changes made to the pension figures and that the implications of this would be detailed in the Audited Accounts once the revised pension Actuarial Report has been received. He then advised that the other area under review was the carrying value for the Lothian Buses investment and this would show a downward change in the valuation of this in the accounts.</p> <p>In responding to a question the Chief Officer confirmed that the rescinding dividend in respect of the council's shareholding in Lothian Buses would be amended for the Audited Accounts. A question was also raised on the number of Council houses completed and the housing revenues account and the Chief Officer confirmed that he would provide an explanation on the housing completions and the average numbers in the year.</p>		

On responding to a question with regards to the budget gap and the impact of COVID-19, the Chief Officer advised that a report would be presented to Council on 25 August which would provide a financial update in terms of COVID-19.

Thereafter the Chief Officer provided clarity to further questions and comments raised and confirmed that the disclosures would be improved in the document and that clarity with regards to provision for bad debt would be circulated to members.

Decision

The Audit Committee:

- Considered and Commented on the unaudited accounts for 2019/20.
- Noted that the Presentation Unaudited Accounts 2019/20 would be circulated with the minute.
- Noted that the two financial reports which would be presented to Council on 25 August would be circulated to the two Independent Members and that any future reports which had a financial element relevant to the Audit Committee would also be circulated to the Independent members of the Audit Committee.
- Noted that clarity on the completed houses compared to number of houses in the HRA statement would be provided.
- Noted that the reference to 'complete shutdown of economy' would be reviewed and updated as required.
- Noted that the reference to Penicuik and Dalkeith would be adjusted to include Bonnyrigg and Lasswade.
- Noted that clarity be provided on the provision of bad debt.

Action

Democratic Services/Chief Officer Corporate Solutions

6. Private Reports

No private reports were submitted.

7. Date of Next Meeting

The next meeting will be held on Tuesday 29 September 2020 at 11 am

The meeting terminated at 12.20 pm

Actions Log

Audit Committee
Monday 12 October 2020
Item No: 4.2



No	Subject	Date	Action	Action Owner	Expected completion date	Comments
1	Internal Audit Recommendations	03/12/2019	Internal Audit will continue to monitor for completion the outstanding recommendations and will provide update reports to the Audit Committee.	Chief Internal Auditor	October 2020	Follow-up report on Completed Recs included in agenda for 12 October 2020. Complete
2	Internal Audit Work	10/03/2020	Noted that a detailed report would be provided to Members on the 22 expired contracts.	Legal Services Manager	October 2020	Update will be provided at the Meeting.
3	Minutes of Previous Meetings: Matters Arising re Internal Audit Strategy and Annual Plan 2020/21	22/06/2020	Jill Stacey, Chief Internal Auditor advised the committee that with regards to the Audit Plan they would be reassessing potential changes in light of Council response to the pandemic. After discussions were held with senior management and the significant changes would be made to the Audit Plan this would be presented to this committee in due course.	Chief Internal Auditor	December 2020	Proposed amendments to the Internal Audit Annual Plan 2020/21 would be submitted as part of the Internal Audit Mid-Term Performance Report 2020/21.

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
4	Internal Audit Annual Assurance Report 2019/20 – Local Code of Corporate Governance	22/06/2020	Noted that a report would be presented to a future meeting of the Audit Committee on the updated Local Code of Corporate Governance prior to being presented to Council for approval.	Chief Internal Auditor	January 2021	Agreed that some of the revisions would be presented to CMT over the coming months therefore this would not be presented to the Audit Committee until early 2021 prior to going to Council for approval
5	Internal Audit Annual Assurance Report 2019/20 – Risk Management Policy and Strategy	22/06/2020	Agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy	Waste, Risk and Resilience Manager	January 2021	
6	Annual Governance Statement 2019/20 – Financial Improvement Updates	22/06/2020	Agreed that regular financial improvement updates would be provided by the Chief Officer Corporate Solutions (Section 95 Officer) to the Audit Committee and that the first update would be provided at the December meeting.	Chief Officer Corporate Solutions (Section 95 Officer)	December 2020	
7	Unaudited Accounts	18/08/2020	That the presentation on the Unaudited Accounts 2019/20 would be circulated with the minute of the meeting.	Chief Officer Corporate Solutions/ Democratic Services	October 2020	

No	Subject	Date	Action	Action Owner	Expected completion date	Comments
8	Financial Reports – Council Meeting - 25 August 2020	18/08/2020	Send reports to the Independent Member of the Audit Committee	Democratic Services	December 2020	Future Reports with a financial element relevant to Audit to be circulated to Independent Members of the Audit Committee.
9	Unaudited Accounts	18/08/2020	<p>Clarity on the following information to be sent to Audit Committee members with the minute.</p> <ul style="list-style-type: none"> Completed Houses compared to number of houses in HRA statement. Provision of bad debt. <p>Amendments to be made to the Accounts as discussed.</p>	Chief Officer Corporate Solutions/ Democratic Services	October 2020	Update will be provided at the Meeting.

Midlothian Council

**Annual Audit Report to Members
and the Controller of Audit - year
ended 31 March 2020**

12 October 2020

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Best Value and Wider scope dimensions	Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited body's: <ul style="list-style-type: none"> ▶ financial position and arrangements for securing financial sustainability ▶ suitability and effectiveness of corporate governance arrangements ▶ effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets Provide an update on the our work in respect of assessing the Council's arrangements to secure Best Value across our audit appointment period	21
Appendices	Undertake statutory duties, and comply with professional engagement and ethical standards: Appendix A: audited body's responsibilities Appendix B: required auditor communications Appendix C: independence and audit quality Appendix D: action plan Appendix E: summary of adjusted differences identified during the audit Appendix F: Timing and deliverables of the audit	41

About this report

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

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

Complaints

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

Executive Summary: Key Conclusions from our 2019/20 audit

We intend to issue an unqualified audit opinion on the Council and Group 2019/20 financial statements.

We have continued to update our risk assessment in response to the global pandemic, and as a result placed additional focus on:

- ▶ the adequacy of the Council's disclosures in relation to the pandemic; and
- ▶ management's assessment of going concern and the financial impact of Covid-19 on its future financial position.

Financial Statements

We have concluded our audit of the Council's financial statements for the year ended 31 March 2020. During the course of the audit, 9 adjustments were required to be made, which are outlined within Appendix E. One unadjusted difference is also noted that we are required to communicate to the audit committee. The draft financial statements and supporting working papers were provided in time and were of a good quality. We worked with management to update and make enhancements to the Management Commentary, Annual Governance Statement and notes to the financial statements, in particular to reflect the implications of the Covid-19 global pandemic on the financial statements, the Council's governance arrangements and future plans.

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

Going Concern

Management is required to conclude on the going concern basis of preparation of the financial statements. As a result of the financial and operational pressures faced by the Council to respond to Covid-19, we placed additional emphasis on management's assessment of going concern, and particularly the need to report on the impact of financial pressures on the Council and its future financial sustainability.

The Council has concluded that there are no material uncertainties around its going concern status, however it has enhanced the disclosures around its future financial position in the financial statements to reflect the impact of Covid-19. We have included an emphasis of matter in our audit opinion to draw the readers' attention to these disclosures. Our audit opinion is not modified in respect of going concern.

Wider Scope and Best Value

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

<p>Financial Sustainability</p> <p>The adoption of the Medium Term Financial Strategy and supporting governance meant savings proposals were well advanced prior to Covid-19. Updates to the MTFS will be presented to the Council later in 2020 to provide options to balance the 2021/22 and 2022/23 budgets. Early work to develop Midlothian's local route map through and out of the crisis provides clear and coherent focus on priorities, including economic recovery for the community, and will therefore support the development of future financial plans.</p> <p>The Council has demonstrated shared leadership to respond to the challenge of the pandemic, but there is a need for continued member and officer focus to safeguard financial sustainability.</p> <p>AMBER</p>	<p>Financial Management</p> <p>The Council demonstrates good financial control of the in-year budget, including understanding the impact of Covid-19 in early 2020/21. Financial reporting was clear and consistent throughout the year and improvements have been made to the management and monitoring of the capital programme. We note that while improved governance arrangements have been adopted to approve and monitor savings within the Business Transformation programme, the Council delivered only 71% of planned savings in 2019/20.</p> <p>Some areas, including the delivery of savings and updating of financial regulations, will require continuing focus and attention.</p> <p>GREEN</p>
<p>Governance & Transparency</p> <p>The key features of good governance at the Council are in place and operating effectively. The Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. We were satisfied that Council members continued to have access to sufficient information as a result of the implementation of virtual meetings, and regular briefings to all members.</p> <p>The Council has taken steps to improve the transparency of financial information during the year. Development sessions help to improve the effectiveness of the audit committee.</p> <p>GREEN</p>	<p>Value for Money</p> <p>The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. The Council has a commitment to self-assessment of its performance to ensure that services remain focussed on improvement.</p> <p>We note that performance in some areas to fall short of the targets set within the Council's own performance management framework. The Council should continue to review the targets to ensure that they are achievable and represent changing priorities. We also note that service performance continues to be mixed compared to other councils.</p> <p>AMBER</p>

Our wider scope audit work, and the judgements and conclusions reached in these areas, contribute to our overall assessment and assurance on the Council's achievement of Best Value. Our work will continue to focus on specific aspects of Best Value over our audit appointment period to ensure we cover all required areas. In light of the Council's focus on responding to and recovery from the pandemic, we have agreed to defer some of our initially planned work in this area until 2020/21.

Introduction

As a result of the impact of Covid-19, Audit Scotland and the Accounts Commission agreed to extend our appointment as external auditor of the Council by at least 12 months, to 2021/22.

Purpose of this report

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

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

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

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

Our independence

We confirm that we have undertaken client and engagement continuance procedures, which include our assessment of our continuing independence to act as your external auditor.

The ongoing disruption to the delivery of Council services, as a result of the Covid-19, has a pervasive impact upon the financial statements.

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

Scope and Responsibilities

The Code sets out the responsibilities of both the Council and the auditor (summarised in Appendix A). We outlined these in our Annual Audit Plan, which was presented to the Council's audit committee on 10 March 2020.

The impact of the Covid-19 Pandemic

We conducted our planning in accordance with Audit Scotland's Code of Audit Practice in February 2020. Following the declaration of the global Covid-19 pandemic and the resulting lockdown arrangements in late March 2020, we considered the implications for our audit approach. As a result, we presented our Audit Plan Addendum to the audit committee on 22 June 2020, which outlined the main anticipated areas of impact on the audit following our reassessment of our audit planning and risk assessments.

The key changes to our audit risk assessment was the increased risk around the valuation of property, plant and equipment and our subsequent classification of this as a significant risk to the financial statements. We also outlined a number of areas of the financial statements impacted by Covid-19, including:

► Management Commentary

The Scottish Government revised some of the content requirements of the management commentary to ensure that it can be streamlined to focus on the headline financial results for the year, financial position and risks. There is an expectation that future risks will include those arising from Covid-19.

► Governance Statement

The Annual Governance Statement requirement to capture how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. This was required to include how key governance functions continued to operate, such as key committee meetings and the delivery of internal audit's programme of work.

► Accounting estimates and judgements

Additional disclosures required throughout the financial statements to reflect the additional risks facing the Council and how these have impacted the key judgements and estimates made in preparation of the financial statements.

► Events after the balance sheet date

Significant events after the balance sheet date require to be disclosed within the financial statements.

The impact of the pandemic occurred late in the financial year, and as a result there were minimal changes in the anticipated financial results for 2019/20. There were no material additional transaction streams before 31 March 2020 which required new accounting policies or treatments.

Adaption to remote working

As we outlined in the Annual Audit Plan Addendum, our audit fieldwork was completed remotely as a result of the Scottish Government's lockdown restrictions. The key impacts included:

- ▶ In some areas of the audit additional work was required to assess the format of evidence provided and, where necessary, supplementary procedures were performed to validate the authenticity of evidence.
- ▶ All contact with the Chief Officer, Corporate Solutions and the Council finance team was conducted via virtual meetings, with screen sharing as required. The majority of audit information required was already established for electronic sharing through existing arrangements.

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

Our review and reassessment of materiality

We remain satisfied that the values reported to you in our Annual Audit Plan for planning materiality, performance materiality and our audit threshold for reporting differences remain appropriate.

Our Annual Audit Plan explained that our audit procedures would be performed using a materiality of 2% of the Council's net expenditure. We considered whether any change to our materiality was required in light of Covid-19 and we remained satisfied that the materiality measure reported within our Annual Audit Plan were appropriate. Minor changes were made to the value of materiality that we applied during the audit, to reflect the 2019/20 draft financial statements.

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

Overall Materiality	Tolerable Error	Level that we report to committee
£6.8 million	£3.4 million	£250,000
2% of the Council's net expenditure	Materiality at an individual account level	Nominal amount

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

Financial statement audit

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

- ▶ whether they give a true and fair view of the financial position of the Council as at 31 March 2020 and its expenditure and income for the year then ended; and
- ▶ whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2019/20 Code of Practice on Local Authority Accounting in the United Kingdom.

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

Wider Scope audit

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

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

Our findings are summarised in Section 3 of this report.

Best Value

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

In light of the Council's focus on responding to and recovery from the pandemic, we have agreed to defer some of our work in this area, including the Best Value Follow Up process, until 2020/21. This supports our focus on the audit of the financial statements and most immediately impacted aspects of the wider scope audit in 2019/20.

Financial Statements audit

Introduction

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

This section of our report summarises the audit work undertaken to support our audit opinion, including our conclusions in response to the significant and other risks identified in our Annual Audit Plan. Our Annual Audit Plan was considered by the audit committee on 10 March 2020.

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

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

Our Annual Audit Plan Addendum identified another significant risk in relation to the valuation of property, plant and equipment as a result of the uncertain impact of Covid-19, which may cause valuers to highlight a material uncertainty.

Our plan also highlighted a number of areas of higher inherent risk within the 2019/20 financial statements:

- ▶ Pension Liability and Asset Valuation;
- ▶ Accounting for Public Private Partnerships (PPP); and
- ▶ Valuation of long term investments in subsidiary undertakings.

Compliance with Regulation

The financial statements were submitted for audit and available for inspection within expected timescales, with no need to draw upon the flexibility provided within the Coronavirus (Scotland) Act 2020.

The Local Authority Accounts (Scotland) Regulations 2014 set out the statutory requirements on the Council to prepare financial statements, ensure their availability for public inspection and consideration by a committee with an audit or governance remit. The Coronavirus (Scotland) Act 2020 allowed the Council to postpone submitting the unaudited financial statements until it was reasonably practicable to do so. Despite the pandemic, the Council complied with the normal timescale concerning preparation, publication and approval of its annual financial statements. We received the unaudited financial statements on 30 June 2020.

The inspection notice was published by the Council on 17 June 2020, in line with the requirements of the Regulations. No objections were received in relation to the financial statements.

The Council has responded to sector developments to improve the presentation and accessibility of the financial statements.

Preparation of the Financial Statements

The Council has responded to increased expectations from CIPFA and external reviews to improve the quality and accessibility of the financial statements. We were pleased to note that the financial statements were reviewed against good practice to ensure that the presentation and clarity of disclosures was improved.

While there were significant additional pressures on the finance team after the year end, information related to the audit and financial statements was provided in a timely manner. The unaudited financial statements prepared by management were to a good standard and were materially compliant with the Code and required disclosures. As part of the audit process, we worked with management and the finance team to make amendments and enhancements to the presentation.

The continuing change to circumstances driven by Covid-19 led to a number of disclosure changes within the financial statements. This reflects developing risks, additional information becoming available in respect of the valuation of key judgements and estimates in the financial statements, and agreement between management and the audit team on key disclosure requirements for areas of specific focus in 2019/20.

Group financial statements

The Council has identified and accounted for the following associates within its group financial statements:

- ▶ Lothian Valuation Joint Board; and
- ▶ Midlothian Integration Joint Board.

The Council also consolidates interests in small subsidiaries, including common good and community funds. No matters were identified as a result of our review of the group consolidation arrangements within the financial statements.

Midlothian Integration Joint Board is the only entity in scope for our group audit arrangements. All required audit work was provided by the IJB audit team to the Council audit team in line with timeframes agreed and with no exceptions or reportable matters noted.

Audit outcomes

We identified one unadjusted judgemental audit difference relating to additional updated information being made available in relation to the Local Government Pension Scheme. Nine adjustments were processed as part of the audit, primarily relating to challenge associated with the valuation of property, plant and equipment. The Local Government Pension Scheme net liability valuation was also amended following updated information being made available after the unaudited financial statements were published. Details of the adjustments are outlined in Appendix E.

Our overall audit opinion is summarised on the following page.

Our audit opinion

Element of opinion

Basis of our opinion

Conclusions

Financial statements

- ▶ Truth and fairness of the state of affairs of the Council at 31 March 2020 and its expenditure and income for the year then ended
- ▶ Financial statements in accordance with the relevant financial reporting framework

We report on the outcomes of our audit procedures to respond to our assessed risk of misstatements, including significant risks within this section of our report. We did not identify any areas of material misstatement.

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

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

We have issued an unqualified audit opinion on the 2019/20 financial statements for the Council and its Group.

Going concern

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

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

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

In accordance with the work reported on page 18, our audit opinion is unqualified in this respect.

Other information

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

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

Our conclusion draws upon review of committee minutes and papers, regular discussions with management, our understanding of the Council and the sector and our participation in the Local Area Network with other scrutiny bodies.

We are satisfied that the other information in the accounts meets the core requirements set out in the Code of Practice on Local Authority Accounting.

Matters prescribed by the Accounts Commission

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

Our procedures include:

- ▶ Agreeing the format of the reports to regulations and agreeing the disclosures to underlying accounting records, including to the underlying partner's accounting records.
- ▶ Reviewing the content of narrative disclosures to information known to us.
- ▶ Our assessment of the Annual Governance Statement against the *Delivering Good Governance* Code.

We have issued an unqualified opinion.

Matters on which we are required to report by exception

We are required to report on whether:

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

We have no matters to report.

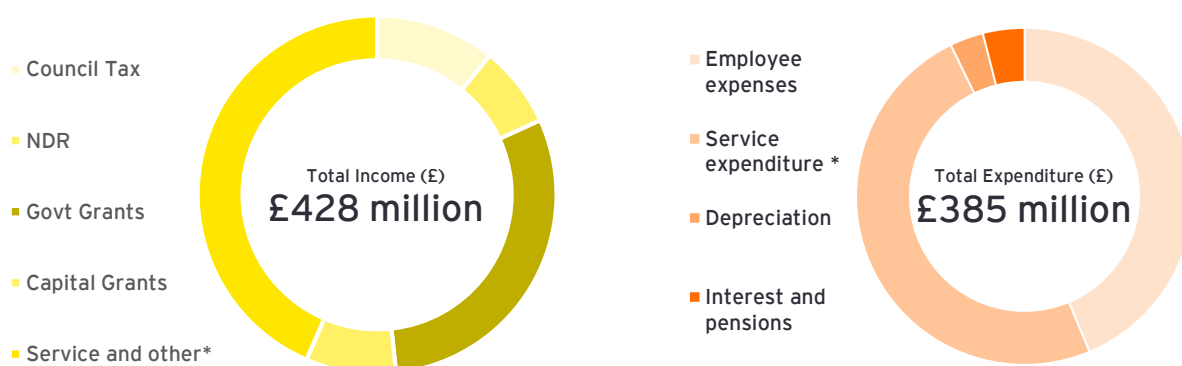
Significant and fraud audit risks

Risk of Fraud in income and expenditure recognition

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

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

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



Source: 2019/20 Financial Statements: Comprehensive Income and Expenditure Statement

We undertake specific, additional procedures for income and expenditure streams where we identified a fraud risk. For 2019/20 our work included:

- ▶ Review and challenge of management's accounting estimates on revenue or expenditure recognition for evidence of bias.
- ▶ Review transaction listings for individually material transactions as well as unusual items to agree to supporting documentation and third party evidence. Test a representative sample of transactions across the remaining income and expenditure population to ensure coverage of testing across all balances.
- ▶ Review and test revenue recognised around the financial yearend through manual journals and credit notes raised after yearend.
- ▶ Search for material payments and receipts received after year end and ensured these had been accounted for in the correct period.
- ▶ Review of additional revenue streams and cut off testing for additional income received as a result of the Covid-19 pandemic.

Our Audit of Other Income and Expenditure

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

Other audit procedures: non-significant risk areas:

Our audit work on other non-significant accounts identified no audit misstatements. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas.

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

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

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

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

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

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

Pension costs: We have outlined our consideration of the valuation of pension assets and liabilities held by the Council on page 16. In respect of all pension transactions impacting the CIES we have agreed these journals to the underlying IAS 19 report prepared by the Council's actuary.

Judgements and Estimates

Management disclose their assessment of the critical accounting judgements and key estimates in the financial statements. We reviewed each significant accounting estimate for evidence of management bias, including retrospective consideration of management's prior year estimates.

We identified and considered the appropriateness of key accounting estimates, including provisions, and their susceptibility to bias.

Accounting Policies

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

Risk of Misstatement due to Fraud or Error

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

Risk of Fraud

We considered the risk of fraud, enquired with management about their assessment of the risks of fraud and the controls to address those risks. As a result of a specific risk identified in relation to procurement, we were required to undertake additional testing on purchases. The results of this work are summarised within our Financial Management section, on page 31. We also updated and developed our understanding of the oversight of those charged with governance over management's processes over fraud.

Testing on Journal Entries

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

We obtained a full list of journals posted to the general ledger during the year, and used our bespoke data analysers to identify any unusual journal types or amounts based on our identified risk areas for the audit. We evaluated the business rationale for any significant unusual transactions.

In particular, we reviewed property, plant and equipment expenditure to ensure it fulfils the accounting requirements to be capitalised. We also tested Housing Revenue Account expenditure to ensure funds were not being used to meet General Fund expenditure.

Our conclusions

- ▶ Our testing has not identified any material misstatements relating to revenue and expenditure recognition. We did not identify any areas of significant estimation or judgement as part of our audit work in these areas where we disagreed with management over the accounting treatment.
- ▶ We have not identified any material weaknesses in the design and implementation of controls around journal processing. We did not identify any instances of evidence of management override of controls.
- ▶ There was no disagreement during the course of the audit over any accounting treatment or disclosure and we encountered no significant difficulties in the audit.

Valuation of Property, Plant and Equipment

The Council's property, plant and equipment (PPE) portfolio totals £892 million of assets. The valuation of these assets requires expertise and judgement. In our Annual Audit Plan Addendum, we reported that the Royal Institute of Chartered Surveyors (RICS) had issued guidance highlighting that the uncertain impact of Covid-19 on markets may cause valuers to conclude that there is a material uncertainty in the valuation of assets at 31 March 2020.

As a result we increased our risk assessment around the valuation of property, plant and equipment from inherent to significant. To address the increased risk, we used our internal specialists to examine the work performed by Council valuers, including the assessment of assets not subject to valuation in 2019/20.

Our work focused on the following key areas of judgement:

- ▶ Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- ▶ We considered the work and conclusions of the City of Edinburgh Council's valuers in relation of the valuation of the joint Millerhill plant.
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- ▶ Reviewed management's assessment of assets not subject to valuation in 2019/20 to confirm that no indicators that earlier revaluation was required to prevent material misstatement of each class of asset.
- ▶ Tested accounting entries to ensure they have been accurately processed in the financial statements.

Our conclusions

- ▶ Appendix E outlines three audit adjustments that were made to reflect the result of our challenge. We continue to identify weaknesses in some of the judgements applied by the internal valuer. In 2018/19, we recommended that the Council should subject a sample of internal valuations to review by an external specialist. While we continue to note some improvements in the challenge process undertaken by the Finance Team, the valuations process continued to require disproportionate audit effort and inconsistencies in judgement resulted in audit adjustments.
- ▶ As anticipated, the valuations completed in 2019/20 were subject to material uncertainties in line with RICS guidance. While this does not mean the valuation cannot be relied upon, the Council has included the uncertainty in its disclosures around key estimates and judgements in the financial statements. The internal valuer was able to lift the material uncertainty in relation to housing.
- ▶ We concluded that management has undertaken sufficient procedures to identify any assets which should be revalued before their cycle valuation date, but this will remain an area of focus in future years.

Valuation of pension liabilities

The Council's net pension liability, measured as the sum of the present value of the long term payments due to members as they retire against the Council's share of the Lothian Pension Fund investments, is a material balance in the Council's financial statements. At 31 March 2020 the net liability totalled £97.7 million.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. We highlighted in our Annual Audit Plan Addendum the increased likelihood of significant movements in both the valuations of the pension assets and liabilities due to the impact of Covid-19 on investment assets and actuarial assumptions.

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

- ▶ The reasonableness of the underlying assumptions used by the Council's actuary, including those associated with recent developments in relation to the equalisation case judgements known as the McCloud and Goodwin rulings.
- ▶ Ensuring the information supplied to the actuary in relation to the Council was complete and accurate and that the accounting entries and disclosures made in the financial statements were consistent with the actuary's report.
- ▶ The findings of the appointed auditor of the Lothian Pension Fund to obtain assurances over the information supplied to the actuary in relation to the Council, in particular in relation to the valuation of the Pension Fund assets at 31 March 2020.

Our conclusions

- ▶ The assumptions used by the actuary have been reviewed by both PWC, through its nationally contracted role to consider the outputs of actuaries provided to local government bodies, and our EY actuarial team who have both concluded that the assumptions and methodology used are considered to be appropriate.
- ▶ We have assessed the approach taken by actuaries and management to account for the estimated impact of the recent consultation around the McCloud judgement and Goodwin ruling. Due to the timing of events these were not accounted for in the unaudited financial statements and, as such, have been included in the schedule of adjusted and unadjusted differences at Appendix E.
- ▶ The auditor of the Lothian Pension Fund reported no material differences in the valuation of assets held by the Fund. However, it reported a material uncertainty in relation to the valuation of complex investments at 31 March 2020, specifically investment properties. As a result the Council has reported the same uncertainty its own financial statements for its share of the Fund's assets.

Accounting for Public Private Partnerships (PPPs)

The Council has 5 PPP contracts, with liabilities amounting to £96 million (£85 million in 2018/19). Four of the PPPs were operational and recognised in the Council's balance sheet in 2018/19. The most recent PPP is a 25 year contract which was jointly procured between Midlothian and the City of Edinburgh Council for a residual waste treatment plant at Millerhill. The service became operational on 17 April 2019.

Our work focused on the following key areas of judgement:

- ▶ We engaged an internal EY PPP specialist in this area to ensure that the proposed accounting treatment by the Council is appropriate. Due to the nature of the joint contract, the specialist participated in joint calls with the Midlothian and City of Edinburgh procurement and finance teams to provide challenge and insight in relation to the accounting treatment.
- ▶ Our specialist conducted analysis of the contract, and review and consideration of the financial model.

For all pre-existing PPP schemes we reviewed the existing contracts and inquired with management outside the finance team to ensure there were no material changes to the arrangements that should be accounted for. We tested the accounting entries made in the year to supporting schedules and contracts.

Our conclusions

- ▶ Subject to the audit adjustment identified within Appendix E, our PPP specialist team agreed with the approach adopted by the Council.
- ▶ We agreed the PPP liability calculations to supporting contracts.

Valuation of long term investments in subsidiary undertakings

The Council holds a 5.5% shareholding in Lothian Buses Plc. The Council's shareholding was held at £8.1 million as at 31 March 2019. Our Annual Audit Plan Addendum identified a risk that the audited financial statements as at December 2019 may not reflect the impact of the pandemic. Our work focused on the following key areas of judgement:

- ▶ We reviewed management's assessment of the Lothian Buses valuation, including consideration of up to date management accounts to identify any material changes in financial results.
- ▶ We reviewed the Council's disclosures in relation to key estimates and judgements.

Our conclusions

- ▶ Following our challenge process, the Council conducted an updated impairment review in relation to the carrying value of the investment. The adjustment as a result of this is reflected within Appendix E.

Going concern

The rationale for going concern remains the same, but we placed increased focus on management's assertion of going concern and disclosures relating to financial sustainability as a result of the uncertainty and unprecedented budget pressures caused by Covid-19.

Our audit opinion will include an emphasis of matter to draw attention to the Council's disclosures in relation to the impact of Covid-19 on its future financial position.

International Auditing Standard 570 Going Concern, as applied by Practice Note 10: *Audit of financial statements of public sector bodies in the United Kingdom*, requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report.

We are required to review and challenge management's assessment of going concern, including testing of the adequacy of the supporting evidence and the appropriateness of related disclosures. In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we placed increased focus on management's assertion regarding the going concern basis of preparation in the financial statements, and particularly the need to report on the impact of financial pressures on the Council and Group, and its financial sustainability.

Management's going concern assessment reported that:

- ▶ In accordance with the CIPFA Code of Local Government Accounting, the Council shall prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity.
- ▶ The Council has significant access to cash to support the cost of delivering services, with balances more than sufficient to cover a plausible downturn in Council income from variable sources.
- ▶ Management noted the Council had £4.05 million in uncommitted general reserves at 31 March 2020, exceeding the £3.3 million minimum required by its reserves policy. The Council also had other useable reserves in committed funds which could be reallocated as necessary. Additionally, management was continuing to review other cost saving mitigating actions to address the forecast budget deficit in 2020/21.

On this basis the Council concluded that there are no material uncertainties around its going concern status.

Our conclusions

- ▶ We reviewed and challenged the going concern assessment provided by management. We verified the assessment to supporting information, including key Council reports and finance treasury management forecasts of future cash balances. We concur with management's assessment that there are no material uncertainties in relation to the going concern of the Council, or of the wider Group where they are material to the consolidated financial statements.
- ▶ We worked with management to enhance the disclosures in the financial statements in relation to the impact of Covid-19 on the Council's future financial performance.
- ▶ Given the significance of the impact of Covid-19 to the Council both in 2019/20 and going forward, we included an emphasis of matter in our audit opinion to draw the reader's attention to the relevant disclosures. Our opinion is not modified in this respect.

Looking ahead

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

Prior to this management had demonstrated progress in undertaking work to understand and disclose the impact of the change on the Council's financial statements.

IFRS 16 - Leases and Other changes

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

As we outlined in our 2019/20 Annual Audit Plan, implementation of IFRS 16 was due to be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21 and work was therefore necessary to prepare information required to enable the Council to fully assess their leasing position and ensure compliance with the standard from 1 April 2020.

As part of the consideration of the impact of Covid-19 on local government, CIPFA confirmed the implementation of the standard was to be delayed to 1 April 2021.

As outlined in our 2019 Annual Audit Report, full compliance with the revised standard is likely to require a detailed review of existing lease and other contract documentation prior to the implementation date in order to identify:

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

Before the delay in implementation was confirmed we discussed progress made in preparing for the implementation of *IFRS 16 Leases* standard with the finance team over the course of our 2019/20 audit and were satisfied robust arrangements were being established to assess the impact of the changes for inclusion in the financial statements.

We will continue to assess the Council's progress, including the results of its impact assessment, including the accuracy and completeness of disclosures required in the 2020/21 financial statements.

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

CIPFA/LAASAC Code for 2020/21

Changes have been made to the CIPFA/LAASAC Code on local authority accounting in the United Kingdom for 2020/21. These changes include:

- ▶ Implementation and emphasis of IFRS amendments relating to the application of materiality, and the requirement to avoid obscuring material information;
- ▶ Implementation of Amendments to IAS 19 - Plan Amendment, Curtailment or Settlement; with guidance on initial proxy assessment of quantitative materiality;
- ▶ Reflection of legislative amendments for England, Wales and Scotland;
- ▶ Amendments to reporting by pension funds to align with presentation practices under the Pensions SORP; and
- ▶ Amendments relating to financial instruments.

The 2020/21 Code also includes agreed reporting text for the implementation of the deferred *IFRS 16 Leases* standard. This appendix will apply from 1 April 2021 and it will allow local authority financial statement preparers to make effective preparations for the implementation of the standard in the 2021/22 financial year.

It is important that management performs its own assessment of the impact in advance of preparation of the 2020/21 financial statements.

Best Value and Wider Scope dimensions

Introduction

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

In doing so, we draw upon conclusions expressed by the Council's Chief Internal Auditor, and the scrutiny bodies that we work with on the Local Area Network (LAN) including Education Scotland and the Care Inspectorate. We also consider national reports and guidance from regulators and Audit Scotland. The LAN determined, in agreement with the Council, that no separate scrutiny plan has been necessary since the 2019/20 plan published in September 2019. We subsequently considered if any additional action was required in response to the global pandemic. LAN members agreed that it remained appropriate to continue to hold the next LAN meeting in line with the usual cycle to allow for fuller consideration of the impact on the Council.

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

The wider scope dimensions

Financial Sustainability: Considers the medium and longer term outlook to determine if planning is effective to support service delivery. This will focus on the arrangements to develop viable and sustainable financial plans.

Financial Management: Considers the effectiveness of financial management arrangements, including whether there is sufficient financial capacity and resources, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Governance and Transparency: Is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

Value for Money: Considers whether value for money can be demonstrated in the use of resources. This includes the extent to which there is an alignment between spend, outputs and outcomes delivered and that there is a clear focus on improvement.

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

Financial Sustainability

The adoption of the Medium Term Financial Strategy and supporting governance arrangements meant that savings proposals were well advanced prior to the impact of Covid-19. We understand that updates to the MTFS will be presented to the Council later in 2020 to provide options to balance the 2021/22 and 2022/23 budgets. Early work to develop Midlothian's local route map through and out of the crisis provides clear and coherent focus on priorities, including economic recovery for the community, and will therefore support the development of future financial plans.

Our assessment of 'amber' reflects the early planning and shared leadership to respond to the challenge of the pandemic, balanced with the ongoing challenge facing the Council to deliver savings in light of the level of risks and uncertainty that are outside the Council's control, including Covid-19 factors and decisions on funding allocations and fiscal flexibilities. There is therefore a need for continued member and officer focus to safeguard financial sustainability.

Medium Term Financial Planning

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

The Council received a Medium Term Financial Strategy update, along with finalised 2020/21 budget projections in February 2020. The local government settlement exceeded revenue projections, but a 17% reduction in capital meant that the budget gap grew over the life of the strategy to £9.7 million. Early work undertaken by the Business Transformation Steering Group meant the Council had identified and approved savings of £4.5 million to be delivered in 2020/21 by October 2019. In February 2020, the Council was therefore able to set a balanced budget for 2020/21, along with a risk allowance of £400,000.

Impact of Covid-19

Like all councils in Scotland, the impact of the Covid-19 pandemic has resulted in significant financial pressure in 2020/21. The Council's most recent financial update report, prepared in August 2020, outlines additional costs relating to the pandemic of £7.8 million, comprising:

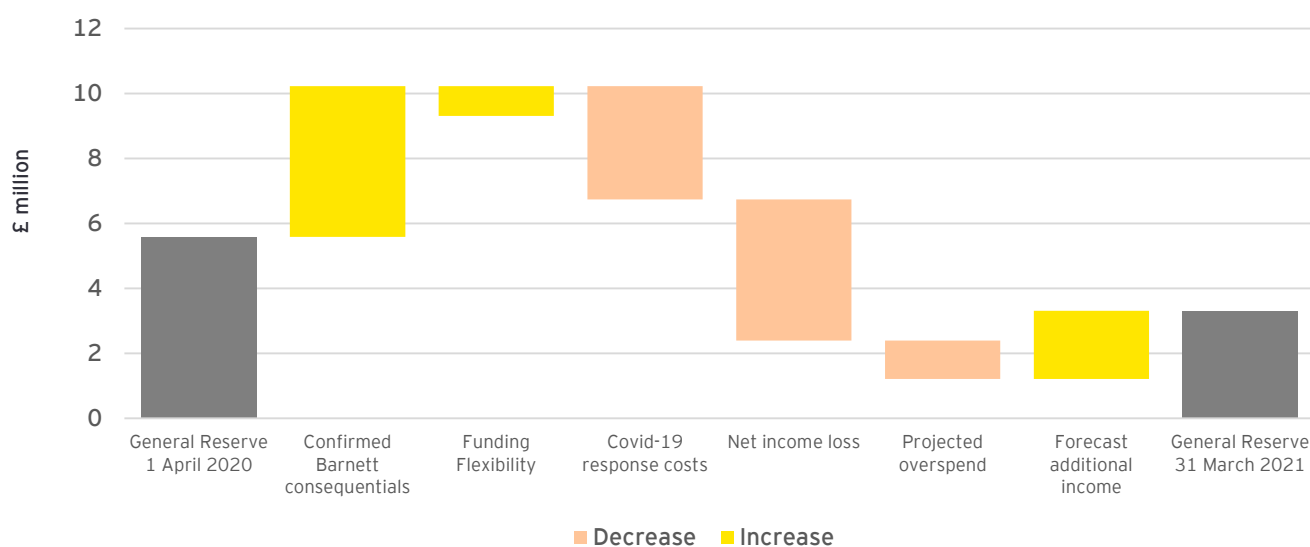
- ▶ £3.5 million in additional response costs to 31 July 2020; and
- ▶ £4.3 million net reduction in forecast income.

These costs have been partially offset by additional resources from the Scottish Government, including the Council's share of 'Barnett consequentials' (£4.6 million) and flexibility in Early Years funding of £0.9 million and an initial estimate of £2.2 million from further government funding in relation to the income loss support scheme.

Projected Impact on Reserves

The full impact and financial flexibilities available to councils as a result of the global pandemic is not yet fully understood. As Exhibit 2, below, highlights, the Council projects that General Reserves will fall over 2020/21 as a result of the impact of the pandemic. The projected reserve at 31 March 2021 is £3.44 million, marginally above the £3.3 million target set within the Council's Reserves Strategy in February 2019.

Exhibit 2: The Council's financial monitoring reports project that General Reserves will reduce by £2.2 million in 2020/21



Source: Midlothian Council Financial Monitoring Report, August 2020

As with other councils, the key areas of additional spend associated with the global pandemic related to the costs of childcare for children of key workers, support for vulnerable groups including homelessness accommodation and provision of free school meals and the costs of personal protective equipment. Around £2.1 million of the costs incurred (61%) were met by ringfenced or flexible funding directed by the Scottish Government, resulting in a net cost of £1.4 million.

The Council has also monitored the financial impact associated with lost income. Key areas include:

- ▶ net lost income for the Snowsports Centre and Leisure Centres are forecast to be £2 million in 2020/21;
- ▶ as in 2019/20, the Council is not expected to receive an anticipated £0.45 million dividend from Lothian Buses; and
- ▶ a reduction in forecast council tax income growth of £0.5 million as a result of the pausing of the extensive house building programme across private and public sector developments.

Risks and uncertainties within the MTFS

There are a number of areas, before the impact of Covid-19, where other uncertainties could materially impact the Council's delivery of financial plans, balanced budgets and the underlying required savings. These include the risks around accuracy of assumptions in existing financial plans, such as around inflation, pay awards and demographic drivers of income and expenditure.

The risk that cost pressures as a result of demographic demand exceed budget estimates is one of the key risks identified within the Medium Term Financial Strategy. Rising school rolls place a significant pressure on the Council's capital and revenue planning. The 2020/21 education budget anticipated savings of £3 million. As a result of delays to consultation, management expectations are now that only £0.6 million will be achieved in year, resulting in a cost pressure of £2.4 million. This has subsequently been mitigated by other measures implemented by the directorate.

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

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

Funding disparity

In March 2020, the Scottish Government published the Green Book, which provided additional transparency about the methodology applied to allocate central government funding to councils. One of the key factors adopted within the funding model for 2020/21 is the National Records of Scotland (NRS) population estimate, for which the 2018 mid year estimate is adopted as the indicator. As the Council is experiencing the highest population growth in Scotland, they face a particular challenge as the funding model does not keep pace with population changes. Based on NRS estimates, the Council's population in 2020 has increased by 2.8% since 2018, compared to a 0.4% increase across the whole of Scotland. In addition, management advise that the 2020/21 grant settlement Midlothian is a contributor to the floor mechanism to the value of £1.8 million. That is funding assessed as being required for Midlothian which is redirected to provide a degree of stability to other Councils, including those with reducing populations.

In March 2020, Audit Scotland drew attention to a specific funding challenge within their national report, *Early Learning and Childcare Follow up*, relating to the rollout of additional funded childcare hours. Due to a decision to base funding allocations on 2014 population figures, the funding that the Council will receive is 24% less than required due to the rapid growth in early years population.

As one of the fastest growing populations in Scotland, the Council faces an additional challenge to prepare for the future needs of the community. The difficulty associated with ring fenced funding keeping pace with population change was highlighted within an Audit Scotland report in March 2020.

Covid-19 Recovery Planning

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

In June 2020, the Council approved the local "route map", outlining the steps that will be taken in a four phase recovery through and out of the Covid-19 crisis. The route map identifies a number of key priorities to guide decision-making:

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

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

The Council has taken early steps to learn from the significant changes in ways of working throughout the pandemic lockdown, to inform future planning.

In addition, the Council has worked with Nesta, a charitable innovation foundation, to learn lessons from the pandemic, and to ensure that improvements in ways of working can be harnessed for the future. Nesta interviewed a range of staff and stakeholders and found that there were a number of benefits to some, including home working, increased attendance at virtual meetings and closer community links. The Council's early willingness to learn from the opportunities and new models of working will inform future priorities and innovation.

Financial Management

The Council continues to demonstrate good financial control of the in-year budget, including understanding the impact of Covid-19 in early 2020/21. Financial reporting was clear and consistent throughout the year and improvements have been made to the management and monitoring of the capital programme. While improved governance arrangements have been adopted to approve and monitor savings within the Business Transformation programme, the Council delivered only 71% of planned savings in 2019/20.

Our interactions with finance through the year identified no material financial control deficiencies. We did not identify any weakening of the financial management arrangements after the year end as the control environment evolved to remote working requirements. Our assessment of 'green' overall recognises that progress has been made against a number of areas where we have noted concern in prior years. Some areas, including the delivery of savings and updating of financial regulations, will require continuing focus and attention.

Financial Outturn

The Council spent £368 million on the provision of services in 2019/20. The Comprehensive Income and Expenditure Statement records a surplus for the year of £114 million, principally as a result of the impact of revaluation of the Council's schools estate (£44 million) and by movements in the pension liability (£43 million).

The Council's recorded a net overspend of £0.506 million on service expenditure, which was offset by higher than forecast Scottish Government grant and Council tax income.

The key factors in the service overspend related to:

- ▶ under-delivery of planned business transformation savings (£2.4 million);
- ▶ a rescinded dividend relating to the Council's share in Lothian Buses (£0.4 million); and
- ▶ additional building and maintenance costs (£0.9 million).

These costs were offset by a number of favourable variances including:

- ▶ £1.78 million as a result of controlling vacancies, in a number of cases for posts that will be deleted from the establishment as transformational reviews are finalised;
- ▶ Scottish Government funding for the teachers pay award was £0.4 million above budget;
- ▶ Fee income increases, including developer contributions, of £1.1 million above budget; and
- ▶ Council tax income growth above budget projections totalling £0.2 million.

Due to the timing of the coronavirus pandemic, there were no material cost implications of the response in 2019/20.

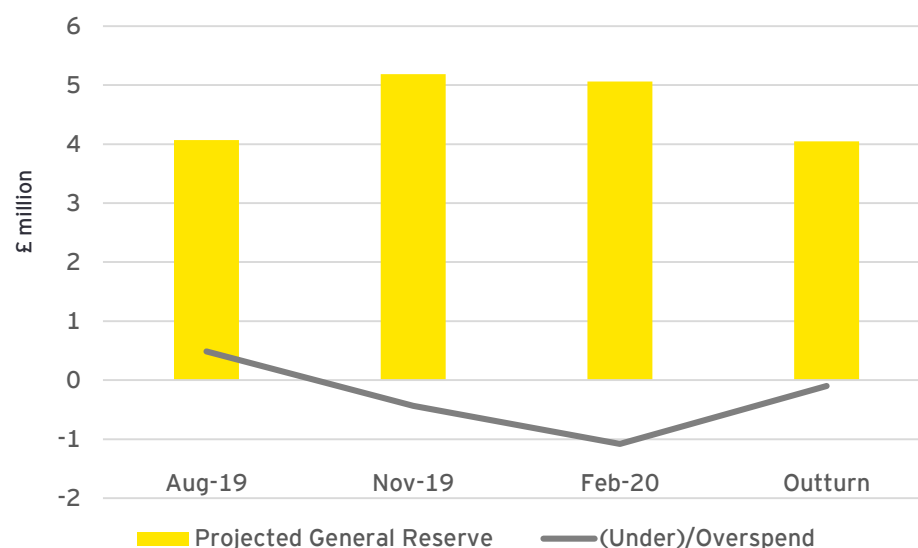
Financial monitoring

We have noted in prior years that there has been significant variation in the projected outturn within financial monitoring reports throughout the financial year. The Council's financial monitoring arrangements in 2019/20 were consistent with previous years and include detailed analysis of key variances across services, along with the forecast impact on the Council's General Reserve.

During 2019/20, recovery actions were initiated to respond to an early projected overspend and enhanced financial control. Actions taken within the Place Directorate included the establishment of a Budget Board to monitor and respond to areas of overspend.

As a result, the Council projected an underspend position throughout the remainder of the financial year. The final outturn was lower than predicted, partly as a result of the rescinding of the Lothian Buses dividend due to the impact of the pandemic late in the financial year. We were therefore satisfied that financial monitoring was sufficiently robust, but as a result of failure to deliver savings, the Council relied upon one off, and therefore unsustainable, sources of income to deliver an underspend.

Exhibit 3: The Council's financial monitoring supported the implementation of recovery actions to address a projected overspend

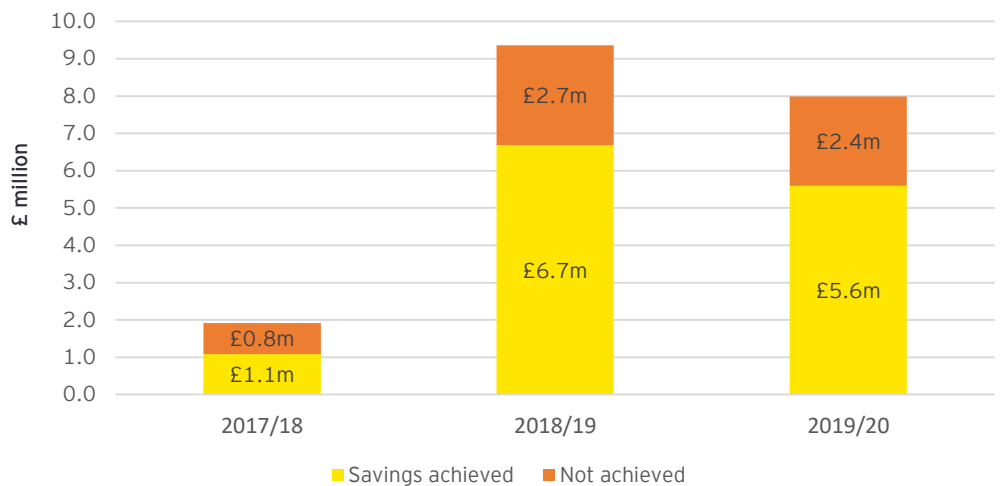


Source: Midlothian Council 2019/20 Financial Monitoring Reports

Delivery of Savings

As in previous years, the Council continued to experience delays in the achievement of savings in 2019/20. As Exhibit 4 highlights, the Council delivered £5.6 million of savings in 2019/20 against a target of £7.988 million (71% of target delivered in year). Audit Scotland noted within the Local Government Financial Overview Report (published in December 2019) that on average, Scottish councils delivered 87 per cent of planned savings in 2018/19.

Exhibit 4: The Council was unable to deliver all planned savings in 2019/20 as a result of continuing slippage in the transformation programme



Source: Midlothian Council Financial Statements 2017/18 to 2019/20

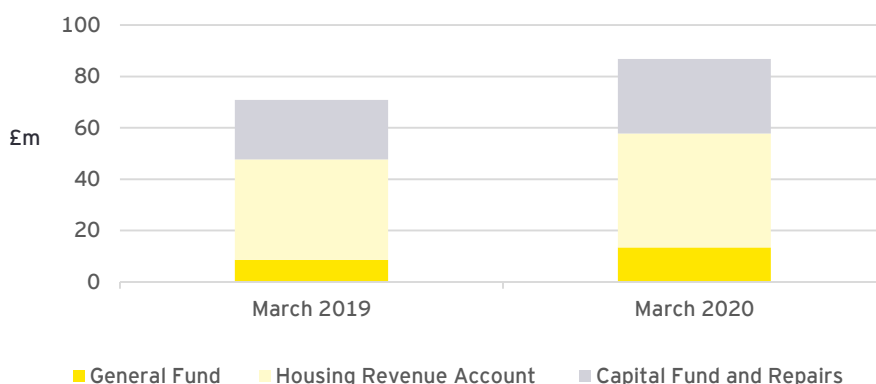
Under delivery of savings places additional pressure on the Council's general reserves. The identification of savings that protect the Council's key priorities has become increasingly challenging, and important, as a result of the global pandemic.

We note that in June 2019, the Council established new arrangements to support the delivery and approval of Business Transformation savings. This allowed savings proposals for 2020/21 to be approved and developed significantly in advance of the start of the financial year. While the pandemic means that planned savings are unlikely to be achieved in full in 2020/21, the cross-party governance arrangements in place to support the development and early approval of savings will support the Council's recovery planning.

Reserves Strategy

One of the key measures of the Council's financial performance in the year is the movement in the Council's useable reserves, which increased by £16 million in 2019/20, mainly due to a £17 million transfer to the HRA reserve to support planned long term investment in social housing.

Exhibit 5: The Council's cash backed useable reserves increased by £16 million in 2019/20, but primarily reflect commitments to meet future costs



Source: Midlothian Council 2019/20 Financial Statements

The Council approved the Reserves Strategy in February 2019. The minimum reserves to be held as uncommitted general funds is 2% of net expenditure excluding the IJB allocation, which equates to around £3.3 million. The uncommitted balance at 31 March 2020 was £4.05 million, a slight fall of £0.05 million from 2018/19.

Budget development

The development of the MTFS, along with supporting governance arrangements improved the development of the budget process. In December 2019, the Council considered a paper on the anticipated budget for 2020/21, along with key areas of sensitivity analysis. The work done to support the development of savings options through the Business Transformation Steering Group meant that a balanced budget was approved in line with planned timescales despite the late notification of the local government funding settlement.

Enhanced monitoring and reporting has been in place to better maintain an understanding of the impact of Covid-19 on the Council's arrangements. The Council has worked with COSLA to submit detailed returns on the costs incurred to date and future forecast impact.

The Council has reviewed the capital programme in the context of changed priorities post-Covid, and changed funding assumptions within the Medium Term Financial Strategy.

Capital programme

The Council spent £58 million on capital expenditure in 2019/20, a £9.8 million underspend against the 2019/20 budget of £67.78 million. A number of delays were experienced to projects as a result of:

- ▶ delays in tendering and remediation works
- ▶ structural issues encountered in planned change to use to support social housing; and
- ▶ changes made to the phasing of capital works.

The Council has a historic trend of slippage against the capital budget. Audit Scotland's Best Value Assurance Report noted that there is scope to improve the capital planning and monitoring process. As a result, the Council established a Capital Plan and Asset Management Board to implement a gateway review and reporting process for all projects over £1 million. The involvement of elected members allows greater transparency on progress of capital projects against milestones, and linked to individual wards.

As a growing Council, Midlothian has a significant capital programme to support key investments to meet the Council's changing demographic demands. The impact of the accelerated capital programme under the local "route map" to respond to the pandemic, together with unexpected changes to the funding allocation from the Scottish Government means that there is now a need to review the programme to ensure that investments are affordable within the updated Medium Term Financial Strategy.

Financial Capacity and Control

As we note within our 2019/20 Annual Audit Plan Addendum, the impact of the Covid-19 pandemic meant that there were significant changes to working arrangements and requirements for the Finance Team prior to the audit.

While the impact of Covid-19 was minimal on the 2019/20 financial management arrangements due to the timing of the lockdown, we considered the impact on the Finance Team throughout our year end audit. We did not identify any significant changes to the main processes and controls across the finance function, with key controls evolving to support remote working without being altered in their purpose or robustness.

While there were significant additional pressures on the Finance Team after the year end, information related to the audit and financial statements was provided in a timely manner. We will continue to monitor the financial management arrangements and the impact on the Finance Team going forward, particularly in 2020/21 as the impact of changes due to Covid-19 continues to evolve.

Procurement

We reported in our Annual Audit Plan 2019/20 that the effectiveness and appropriateness of the Council's arrangements for the prevention and detection of fraud and corruption in the procurement function would be an area of focus for the audit.

Procurement was subject to review by the Council's internal auditors in 2019/20. Their report was issued in February 2020 and internal audit reported that the level of assurance they were able to give was 'Limited Assurance'. Internal audit noted a number of substantial weaknesses including:

- ▶ Lack of capacity within the Procurement Team leading to lack of oversight on some areas of contract oversight and monitoring;
- ▶ A number of cases where contracts had expired and not been retendered; and
- ▶ There is no dedicated contract monitoring system, which limits the effectiveness of monitoring and reporting arrangements.

The Council must address capacity weaknesses within the Procurement Function as a matter of urgency.







The Council's audit committee considered the report at its meeting in March 2020 and noted that internal audit would continue to follow up recommendations and report further on progress. Members also requested a further report to be brought to the meeting of the audit committee scheduled for October 2020 on the 22 expired contracts. We understand that progress to date on the actions has been limited and must, therefore be a priority for action. This weakness is disclosed within the Council's Annual Governance Statement.

As a result of the engagement with the Chief Internal Auditor and Legal Services Manager, we sought advice from our forensics specialists to design additional audit procedures to address the specific risk relating a potential lack of oversight within expenditure in 2019/20. We engaged EY experts from the forensics team to conduct data analysis to allow us to highlight any potential 'red flags' that would merit further investigation, and ultimately allow us to conclude that expenditure was not materially misstated. The analysis focused on:

- ▶ Potential Purchase Order splitting, to address the risk that the combined value of the purchase exceeds their authorisation threshold;
- ▶ Any areas where approval limits were breached; and
- ▶ Unusual trends and relationships within transactions, which included across financial years.

The results are summarised within Exhibit 6 on the following page and highlight areas to strengthen internal control. Following investigation of specific queries, and based on the work performed, we were able to conclude that expenditure was not materially misstated.

Exhibit 6: Results of Procurement Analysis

Area of analysis	Overall assessment	Commentary
1. Supplier trend by financial year <i>Analysis of data to look for unusual or unexpected trends.</i>	Green 	All significant observed movements were in line with our understanding of the Council.
2. Summary of POs where the total PO value exceeds an employees approval threshold (Purchase Order splitting)	Green 	As we highlight in Exhibit A within Appendix G we did not identify any unusual activity that would indicate purchase order splitting.
3. Value and volume of invoices with no purchase order	Amber 	As we note on Page 12, the value of Service Expenditure in 2019/20 was over £180 million. While significant expenditure is managed using other systems (such as Mosaic), the value of expenditure covered (£10.3 million) by purchase order was lower than we would anticipate.
4. Invoices exceeding purchase orders	Amber 	Exhibit B within Appendix G highlights a specific anomaly in relation to the volume of purchase orders raised for £1.
5. Purchase orders exceeding approval threshold levels.	Amber 	As Exhibit C within Appendix G highlights, where expenditure exceeds a threshold, a senior counter-signatory is required to authorise expenditure. This is a manual process performed outwith the purchase ledger and is not therefore logged within the system.
6. Details of invoices with the same supplier, same document date but a different amount	Green 	Our analysis provided assurance that there was no evidence of suppliers being asked to split invoices.

We will continue to work with the Procurement team and Integrity Group to provide additional analysis and commentary on areas of internal control weaknesses. This will include further sharing and analysis of the data obtained.

Source: EY Forensics analysis of purchase order and invoices in 2018/19, 2019/20 and 3 months to 31 July 2020.

Looking ahead: CIPFA Financial Management Code

The CIPFA Financial Management Code was published in October 2019 and designed to support good practice in financial management and assist in demonstrating the local authority's financial sustainability. Councils are expected to work towards full compliance with the code by financial year 2021/22. We will work with management to support a preliminary assessment of its compliance as part of the 2020/21 audit.

Governance and Transparency

The key features of good governance at the Council are in place and operating effectively. The Council responded quickly to ensure that governance arrangements were appropriate and operating effectively during the lockdown period caused by the global pandemic. We were satisfied that Council members continued to have access to sufficient information as a result of the implementation of virtual meetings, and regular briefings to all members.

The Council has taken steps to improve the transparency of financial information during the year. Training and development sessions for audit committee members has helped to improve the effectiveness of the committee.

Local Code of Corporate Governance

Under the CIPFA framework for *Delivering Good Governance in Local Government*, the Council uses the Annual Governance Statement to report on its assessment of the effectiveness of the governance framework throughout the financial year, and key areas of improvement for 2019/20. The governance statement for 2019/20 concluded that "Although areas for further improvement have been identified, the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control."

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

We reviewed the Annual Governance Statement against the required guidance and we were satisfied that it was consistent with both the governance framework and key findings from relevant audit activity. As part of the audit process we worked with management to further enhance the disclosures, in particular in relation to how governance arrangements were maintained during the revised operating period as a result of Covid-19 and how the priorities for improvement will be consistent with the learning and recovery actions emerging from the global pandemic.

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

The Chief Internal Auditor has concluded that governance arrangements are adequate and that improvements have been made during 2019/20.

Assurance Statement

Based on the work completed in the year, the Council's Chief Internal Auditor concluded that "the systems of internal control and governance are generally adequate with improvements having been made during the year." The internal audit work planned for the year 2019/20 was broadly completed in line with planned deadlines.

Lockdown governance arrangements

Like all other public bodies in Scotland, the Council moved to revised governance arrangements at the beginning of the UK lockdown period. Council and committee meetings scheduled from the end of March to May 2020 were initially cancelled as a result of the pandemic, however a number then went ahead remotely, including the Audit Committee. Full committee arrangements were reinstated using virtual meetings in June 2020.

The Council considered a paper from the Chief Executive outlining discussions with the political group leaders on resilience arrangements for any local lockdown or second wave of the pandemic. These include:

- ▶ following successful transition in June 2020, the full meetings cycle will proceed by way of virtual meetings; and
- ▶ weekly Group Leader meetings initiated at the start of lockdown will re-commence to ensure that effective communication across the political make up of the Council is maintained.

The Council also agreed that a seminar should be held to discuss winter planning and emergency food provision should this be required in light of the pandemic.

EU withdrawal

Throughout 2019/20 the Council has continued to monitor potential scenarios of EU withdrawal and the possible impact on the Council through the EU Exit Working Group set up by the Corporate Management Team. The Council has received updates on risk through the quarterly risk management reporting arrangements.

As the 31 December 2020 deadline for the end of the transition period approaches, it is expected that increasing focus is given to implementing plans to mitigate identified risks. The Council also continues to liaise with community planning partners, such as NHS Lothian. Our reporting mirrors the position in last year's audit where the deadline for the UK's withdrawal was approaching. We will continue to monitor how the Council monitors and responds to developments while focus is also required on matters related to the pandemic.

The Council has responded to transparency requirements in England to ensure that all expenditure over £500 is published on its website.

Openness and transparency

The Council has clear arrangements to ensure that members of the public can attend council and committee meetings as observers in usual circumstances, and agendas and papers are available in advance of each meeting. As meetings were re-established virtually, the Council took steps to ensure that papers continued to be available on the website in advance of the meeting, and webcasts and minutes of meetings are available shortly thereafter. Work continues to allow the public to access live meetings via webcasts.

In October 2019, the Council approved the publication of all expenditure over £500 on the website. Officers responded to an initial Council motion to applaud developments within local government in England. It is hoped that publishing this level of detail will enhance local engagement and accountability as it gives local people the information they require to ask questions about the management of resources.

Audit Committee

The Audit Committee's annual report was considered by the Council in August 2020. The report noted the key areas of focus for the committee in 2019/20, along with the good record of attendance from members and/or substitutes. The report also noted the results of an annual review of the committee's effectiveness, led and facilitated by the Chief Internal Auditor. 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 enhancing the skills and knowledge necessary to fulfil the role of an audit committee member. As a result, the Audit Committee has scheduled a number of informal sessions to deliver training on specific topics including understanding the financial statements and treasury management.

The Committee has also identified further improvement areas including:

- ▶ Ensuring that the Risk Management Policy and Strategy are reviewed and scrutinised on a regular basis; and
- ▶ Understanding how committees fulfil their remits on which the Audit Committee place reliance, for example the Council's arrangements to monitor progress of the Best Value Action Plan.

Arrangements to prevent fraud and corruption

We have worked with the Council's Chief Internal Auditor to assess the Council's arrangements to prevent and detect fraud and corruption. CIPFA's Code of Practice on Fraud and Corruption notes that leaders of public bodies have a responsibility to embed effective standards for countering fraud and corruption in their organisations. The Council has a counter-fraud team in place as part of the Internal Audit Service.

In August 2020 the Council approved a revised Counter Fraud Strategy, along with support for additional resource for the Corporate Fraud Team. The strategy aims to focus on enhancing fraud prevention and detection to improve the Council's resilience to the risk of fraud. One of the key changes is the establishment of an Integrity Group to enhance the links between the finance team, counter fraud group and services. This should allow fraud risks and controls to be assessed systematically across the Council. We will therefore review the operation of the Group in 2020/21.

The Council draws upon national publications to highlight fraud risks, including the Audit Committee's consideration in 2019 of Audit Scotland's publication *Safeguarding Public Money: are you getting it right?* The Council's policies and procedures in relation to fraud and corruption are subject to routine review, update and approval by the appropriate officers and committees.

Audit Scotland National Fraud Initiative (NFI) programme

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

Integration Scheme

In our role as auditor for the Council we consider the governance arrangements at the Council to monitor and scrutinise the wider group as appropriate, in particular where there is the possibility for a financial or operational impact on the Council's services.

The Integration Scheme which governs the working arrangements for the Midlothian Integration Joint Board was due to be updated in 2019/20 by the Board's partners, the Council and NHS Lothian. The Council has reported in its Annual Governance Statement that work was started on this but had to be delayed due to the impact of Covid-19 and prioritisation on immediate delivery of services. Management has confirmed that both partners approved the delay with no impact on the IJB, and will update the scheme in 2020/21 for submission to the Scottish Ministers for approval.

Value for Money

The Council's arrangements for performance monitoring, improvement and self-assessment have continued through the global pandemic. The Council has a commitment to self-assessment of its performance to ensure that services remain focussed on improvement.

We note that performance continues to fall short of the targets set within the Council's own performance management framework. The Council should continue to review the targets to ensure that they are achievable and represent changing priorities. We also note that service performance continues to be mixed compared to other councils.

A
M
B
E
R

Performance Management framework

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

Impact of Covid-19

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

2019/20 Performance Outcomes

The 2019/20 Annual Performance Report outlines a number of key achievements during the year, including progress on educational outcomes and positive destinations for school leavers. Significant work was also progressed on the digital agenda and in asset management, including the housing building programme. However, the key corporate performance indicators for 2019/20, as established and reported by the Council, show that 72% are in the red category. Key areas for improvement include levels of sickness absence (although this compares favourably to most other councils) and response times for complaints handling.

Accountability and delivery of improved outcomes

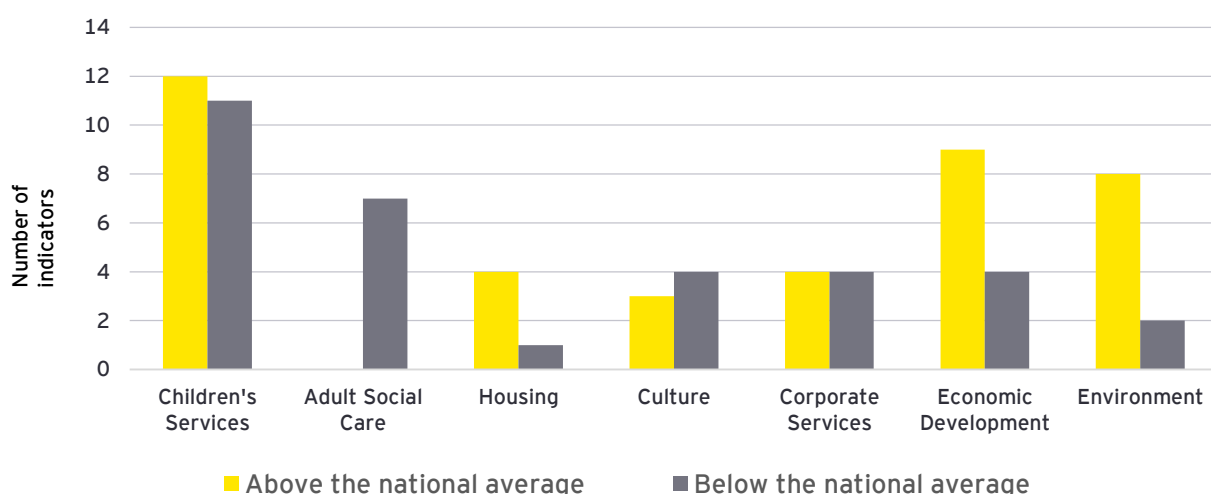
Key indicators within the Council's balanced scorecard provide an assessment of progress against the priorities within the Single Midlothian Plan. The final balanced scorecard for 2019/20 was presented to the Performance, Review and Scrutiny Committee in September 2020. This reports that 56% of indicators are on track for delivery, including:

- ▶ Benefit maximisation for local people supported by the Citizens Advice Bureau and Welfare Rights Team.
- ▶ Improvements in qualification levels within Midlothian.
- ▶ Increasing digital literacy within the community, including the provision of one-to-one IT tuition at home for older people and vulnerable adults.
- ▶ Reductions in exclusion rates in both primary and secondary schools in Midlothian.

Key areas for improvement include the completion of the Children & Young People's Wellbeing and Mental Health Strategy, the level of children living in poverty in Midlothian and levels of support for young people approaching the homelessness service.

As part of its response to the Best Value Assurance Report, the Council has implemented a digital dashboard performance management system to allow elected members to have access to up to date performance data, along with mitigating actions for all indicators. The Council has recently published its analysis of performance against the Improvement Service's 2018/19 Local Government Benchmarking Framework (LGBF) results. Our analysis, within Exhibit 7, below shows that performance continues to be mixed against peers.

Exhibit 7: Performance across council services is mixed against other councils in Scotland



Source: Midlothian Council Analysis of LGBF results 2018/19

Statutory Performance Indicators

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

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

The Council is required to meet the requirements of the revised Statutory Performance Information Direction, for which 2019/20 is the first year. The Council continues to report a range of performance information to stakeholders and the public to demonstrate the relative value and effectiveness of Council services. This includes reporting of the most recently available LGBF results to the relevant committees and to the public.

The Council must ensure that revised priorities and corporate planning and supported by a performance management framework that demonstrates Best Value.

Information reported covers the quality and effectiveness of local services and progress in outcomes, as well as efficiency information. Due to the timing of much of the relevant reporting, most of the reporting on the period impacted by the revised Statutory Performance Information is yet to be concluded. We will continue to monitor and consider the adequacy of reporting against the revised requirements in 2020/21, but the Council should consider its performance reporting arrangements in the context of changed expectations, and the development of the performance management system.

Best Value

We have drawn upon our wider scope and other work to conclude on the Council's approach to Best Value. We note through work undertaken in the year that the Council has a number of key characteristics of Best Value in place, including effective performance monitoring and robust governance arrangements.

In light of the Council's focus on responding to and recovery from the pandemic, we have agreed to defer the Best Value Follow up work until 2020/21, to ensure focus on the financial statements and most immediately impacted aspects of the wider scope audit in 2019/20.

Forming our judgement

As auditor to the Council, we are required to comment on how effectively, in our view, the Council demonstrates that it meets its Best Value responsibilities. In forming this judgement, we draw upon the work conducted in response to our wider scope responsibilities as outlined in this report. We also draw upon the work we complete around the Best Value coverage areas outlined on the following page of this report, and our wider understanding of the Council's arrangements through the year.

Looking ahead

The Council has rightly focused on the immediate impact and required work resulting from the global pandemic within the local route map. We have concluded that, where we have considered through our work carried out in the year, arrangements around Best Value have improved.

As the immediate impact of Covid-19 transitions to assessing its longer term impact on the Council, its service users and wider public as well as other public bodies, it is important that the Council continues to reassess its own arrangements for Best Value in this changing environment. This should include both the Council's delivery of Best Value as services and priorities evolve and its own internal arrangements for ensuring its priorities are focused correctly and monitored and reported. Our Best Value work planned for the remainder of our appointment period, as outlined on the following page, will be undertaken through this lens.

Future best value audit work

Our formal Best Value Follow Up work has been postponed until 2020/21 to allow the Council to reflect on learning and implications of the recovery from the pandemic.

Our Annual Audit Plan included a follow up of the Council's response to recommendations within the July 2019 Best Value Assurance Report. In order to allow the Council to consider the ongoing appropriateness and validity of the improvement plan, our Annual Audit Plan Addendum, signalled our intention to postpone our work on Best Value Follow Up until 2021/22. This allowed management to focus on key operational priorities during the lockdown and recovery period, and allowed our audit to prioritise the financial statements audit requirements to ensure we were flexible and pragmatic in the current circumstances.

The Council considered a 6 monthly update on the Best Value Improvement Plan in February 2020. At that stage, a number of key actions were complete, including the processes to support a Medium Term Financial Strategy. We understand that a further assessment of progress will be considered at the Council's meeting in November 2020.

We summarise below our planned Best Value work over our initial five year appointment period with the Council. Following the deferral of planned work this year and the extension of our appointment by Audit Scotland to include the 2021/22 financial year audit at least, we will engage in discussions with management and Audit Scotland to agree a re-profiled schedule of work for the next two years, which we will report to the Council's Audit Committee in March 2021.

Five year Best Value Audit Coverage						
	16/17	17/18	18/19	19/20	20/21	21/22
			BVAR	BVFU		
Vision and Leadership	1	1	1	2		
Sound Governance and Accountability	1	1			3	
Effective Use of Resources		1	1	2		
Partnership and collaborative working	1		1		3	
Community responsiveness	1		1		3	
Sustainability				2		
Fairness and equality					3	
Performance outcomes and improvement	1	1	1			

1 - Best Value work completed in first three years of our audit appointment.

2 - Best value work planned in 2019/20 and subsequently deferred.

3 - Best value work indicatively planned in 2020/21 to be re-profiled across next two financial years in conjunction with delayed 2019/20 audit work.



Appendices

A - Code of Audit Practice: responsibilities

B - Independence and audit quality

C - Required communications with the Audit Committee

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

E - Adjusted errors identified during the audit

F - Timing and deliverables of the audit

Appendix A: Code of Audit Practice Responsibilities

Audited Body's Responsibilities

Corporate Governance

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

Financial Statements and related reports

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

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

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

Standards of conduct / prevention and detection of fraud and error

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

Standards of conduct / prevention and detection of fraud and error

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

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

Best Value

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

Appendix B: Independence and audit quality

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

Matters that we are required to communicate

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY), its directors and senior management and affiliates, and you, including all services provided by us and our network to you, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Confirmations

We confirm that there are no changes in our assessment of independence since our confirmation in our Annual Audit Plan, dated March 2020.

We complied with the Financial Reporting Council's Ethical Standards and the requirements of Audit Scotland's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that management and members of the Council consider the facts known collectively to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Council on 12 October 2020.

Audit Fees

	2019/20	2018/19
Component of fee:		
Auditor remuneration – expected fee	£144,550	£141,260
Additional audit procedures (note 1)	£TBD	£16,090
Audit Scotland fixed charges:		
Pooled costs	£14,140	£13,700
Performance audit and best value	£64,560	£63,730
Audit support costs	£8,740	£8,870
Total fee	£TBD	£243,650

Note 1: The expected fee for the Council is set centrally by Audit Scotland, and is based on a number of assumptions including sound governance arrangements in place and operating effectively throughout the year, the preparation of comprehensive and accurate draft financial statements and supporting schedules, and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of work in the year and an unqualified audit opinion resulting from the audit.

This year, material additional audit work was required to address the risks related to Covid-19. In particular there was a significant impact on the financial statement disclosures, the risk around valuation of property plant and equipment and the valuation of the Council's share of assets and liabilities in the Lothian Pension Fund. In addition, significant additional audit time was required in relation to Loans Fund and the Millerhill PPP coming on balance sheet. We are discussing the final fee for the 2019/20 audit with management and will report this to the Audit Committee when finalised as part of our 2020/21 Annual Audit Plan.

Matters that we are required to communicate

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

The EY 2019 UK Transparency Report can be accessed on our website at https://www.ey.com/en_uk/who-we-are/transparency-report-2019. This material is published to provide a timely and relevant source of information about EY in general, and our audit business in particular. This includes our inaugural Audit Quality Report.

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

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

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

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

Audit Quality Framework / Annual Audit Quality Report

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

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

The most recent audit quality report which covers our work at the Council since appointment can be found at: <https://www.audit-scotland.gov.uk/report/quality-of-public-audit-in-scotland-annual-report-201920>.

Appendix C: Required communications

Required communication	Our reporting to you
Terms of engagement / Our responsibilities Confirmation by the audit, risk and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties. Our responsibilities are as set out in our engagement letter.	Audit Scotland Terms of Appointment letter - audit to be undertaken in accordance with the Code of Audit Practice
Planning and audit approach Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Annual Audit Plan Annual Audit Plan Addendum
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Annual Audit Plan This Annual Audit Report
Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	This Annual Audit Report
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	This Annual Audit Report - Appendix E
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the audit, risk and governance committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	This Annual Audit Report
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the audit, risk and governance committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	Annual Audit Report (to be issued on completion of audit work) or as occurring if material.

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

Appendix D: Action Plan

We recognise that a number of areas of planned progress have been delayed as a result of the response to the pandemic. We have therefore outlined below where previous recommendations have not yet been fully addressed by management. Additional risks have been identified during the course of our work in 2019/20 in relation to Procurement that will be taken forward with internal audit. We will continue to monitor areas of focus in 2020/21. We have graded these findings according to our consideration of their priority.

Classification of recommendations

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

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

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

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
1	<p>In 2018/19, a movement of £110 million was noted in relation to housing assets compared to 2017/18, largely due to the revaluation in the year.</p> <p>While we are satisfied that the Council has demonstrated that the movement relates to 2018/19, the significance of the movement suggests that housing assets should be subject to a more frequent valuation. The Finance Team had requested that this valuation was undertaken after 4 years, rather than as part of the 5 year rolling programme.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed</p> <p>The triennial revaluation of the Councils Housing stock will be incorporated into the Rolling programme of valuations.</p> <p>Responsible officer: Head of Finance & ISS</p> <p>Implementation date: 31 December 2019</p>	<p>We note that the Finance Team has revised the valuation cycle and has applied indices to ensure that the valuation of significant categories of assets remains up to date.</p> <p>Our assessment: Complete</p>
2	<p>Our review of the valuation report provided by the Council's in house Property and Investment management team identified a number of errors and inaccuracies. To comply with best practice, it is recommended that the Council employs an external valuer on a cyclical basis to review valuations performed by the in-house team.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>As part of a de-brief on 2018/19 year end processes the Council will consider options to enhance management review activity in respect of asset valuations.</p> <p>Responsible officer: Head of Finance & ISS</p> <p>Implementation date: 31 March 2020</p>	<p>We continued to note a number of errors within internal valuations, and more audit involvement was required than we would normally expect to conclude on the valuation of property, plant and equipment.</p> <p>Our assessment: Incomplete</p>

Classification of recommendations

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

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

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

No.	Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress
3	<p>The Council is performing a detailed review to consider the implications of new Loans Fund accounting regulations. As part of this review, the Council has committed to performing a review of their accounting policies to ensure they remain appropriate. The Council should ensure that accounting policies are subject to regular review.</p> <p>The Council should engage with external audit with respect of any changes to the accounting for Loans Fund.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed</p> <p>Responsible officer: Head of Finance & ISS</p> <p>Implementation date: 31 March 2020</p>	<p>We reviewed the Council's proposals for Loans Funds as part of our audit procedures.</p> <p>Our assessment: Complete</p>
4	<p>Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis. The Council must continue to develop a balanced MTFP in the medium to long term.</p> <p style="text-align: right;"><i>Grade 1</i></p>	<p>Agreed, Officers continue to support BTSG to recommend measures to council to achieve a balance MTFS.</p> <p>Responsible officer: BTSG</p> <p>Implementation date: 11 February 2020</p>	<p>We understand that work is ongoing to develop an updated MTFS by the end of 2020 that will deliver a balanced budget for the next two financial years.</p> <p>Our assessment: Ongoing</p>
5	<p>The Council continues to experience timing and data accuracy issues in relation to feeder financial information systems</p> <p>The Council must ensure that services apply greater rigour to feeder financial systems to support improved reporting.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed. As part of the review of the 2018/19 year end an issue and lessons learnt report is being prepared which will set out recommendations for future improvement required for 2019/20 year end.</p> <p>Responsible officer: Head of Finance & ISS</p> <p>Implementation date: 31 March 2020</p>	<p>Within Financial Management, we noted that the level of variation in financial monitoring reports noted in prior years did not occur, signalling improved financial forecasting and control.</p> <p>Our assessment: Ongoing</p>

Classification of recommendations

Classification of recommendations			
Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.		Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	
		Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.	
No.	Findings and / or risk	Recommendation / grading	Management response / Implementation timeframe
6	<p>The Council has a significant capital investment programme, which has long term implications for future funding and treasury management arrangements.</p> <p>The Council's ambitious plans for capital spend must be matched with training and support for members to explain the long term funding implications.</p> <p style="text-align: right;"><i>Grade 2</i></p>	<p>Agreed</p> <p>A training session on treasury management for Audit Committee members to which all elected members are invited is scheduled for 5 November 2019. A refresh of the capital strategy updating the long term implications and affordability of capital investment plans will be presented to Council on 17 December 2019.</p> <p>Responsible officer: Head of Finance & ISS</p> <p>Implementation date: 17 December 2019</p>	<p>Our assessment: Complete</p>
7	<p>The Best Value Assurance Report highlighted that there is scope to be clearer about priority indicators and targets to track the Council's performance. The Council should ensure that performance reporting arrangements support elected member scrutiny.</p> <p style="text-align: right;"><i>Grade 3</i></p>	<p>Responsible officer: Quality & Scrutiny Manager</p> <p>Implementation date: 31 March 2020</p>	<p>While significant improvements have been made to the Council's performance reporting capability, we note within the Value for Money section that there is scope to refine key performance measures and targets.</p> <p>Our assessment: Ongoing</p>

Appendix E: Adjusted and unadjusted errors identified during the audit

This appendix sets out the significant adjustments processed in the financial statements finalisation.

Adjusted differences			
No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	<i>Impact of consultation on addressing costs of McCloud judgement on the Council's LGPS liability valuation at 31 March 2020. Due to the timing of the judgement, this was not reflected within the draft financial statements.</i>	CR Actuarial (gains)/losses on pension assets & liabilities £4,773,000	DR Pension Liability £4,773,000
2	<i>Impairment of Lothian Buses investment as outlined on page 17</i>		DR Available for sale financial instruments account £382,872 CR Long-term investments £382,872
3	<i>Reclassification of non domestic rates balance</i>		DR Debtors £411,510 CR Creditors £411,510
4	<i>Millerhill PPP reallocation</i>		DR PPP Liability £1,770,000 CR PPP Donated Asset Account £1,770,000
5	<i>Purchase ledger control account reallocation</i>		DR Creditors £1,316,528 CR Debtors £1,316,528
6	<i>Removal of additions to components included in valuations</i>		DR Revaluation Reserve £334,434 CR Operational Buildings £334,434
7	<i>Millerhill - removal of food waste plant from valuation</i>	DR Expenditure £2,094,915	CR Operational Land £78,415 CR Operational Buildings £2,016,500
8	<i>Adjustment to asset valuations due to short asset lives</i>		DR Revaluation Reserve £2,967,422 CR Operational Buildings £2,967,422
9	<i>Reclassification of land to buildings</i>		DR Operational Buildings £577,151 CR Operational Land £577,151

Unadjusted judgemental difference

No.	Description	Income and Expenditure Impact	Balance Sheet Impact
1	<p><i>Impact of addressing costs of Goodwin judgement on the Council's LGPS liability valuation at 31 March 2020,</i></p> <p><i>The Goodwin judgement was concluded in July 2020, and was therefore unknown at the time of preparing the financial statements. Management has estimated the impact of the ruling based on guidance from the Government Actuaries Department and knowledge of the members likely to be impacted. We are content that management do not propose to adjust for this difference.</i></p>	<p>DR Actuarial (gains)/losses on pension assets & liabilities</p> <p>£437,000</p>	CR Pension Liability £437,000

Disclosure difference

No.	Area	Description
1	Cash Flow Statement	Any other items for which the cash effects are investing or financing cash flows was increased by £3.738 million to £40million

Appendix F: Timing and deliverables of the audit

We delivered our audit in accordance with the timeline set by the Council, in accordance with the annual audit planning guidance from Audit Scotland. Below is a timetable showing the key stages of the audit and the deliverables through the 2019/20 audit cycle, including the remaining areas of work with completion deadlines subsequent to this report.

	Audit Activity	Deliverable	Timing
JAN			
FEB	<ul style="list-style-type: none"> Onsite fieldwork, documentation and walkthrough of key accounting processes Scoping of wider scope work for year 	Annual Audit Plan	28 March 2020
MAR	<ul style="list-style-type: none"> Review progress of NFI exercise 	Submit NFI Questionnaire	28 February 2020
APR	<ul style="list-style-type: none"> Review of current issues impacting the Council Review of reported frauds 	Quarterly current issue return submission	Quarterly
MAY		Quarterly fraud return submission	Quarterly
JUN	<ul style="list-style-type: none"> Reassessment of audit planning and risks due to Covid-19 	Annual Audit Plan - addendum	22 June 2020
JUL	<ul style="list-style-type: none"> Education Maintenance Allowance (EMA) grant claim testing Wider scope work underway 	Certified EMA return	31 July 2020
AUG		Liaison on Best Value Follow up Assessments	NA
SEP	<ul style="list-style-type: none"> Submit Council dataset return to Audit Scotland 	Return for financial overview	18 May 2020
OCT	<ul style="list-style-type: none"> Year-end substantive audit fieldwork on unaudited financial statements Conclude on results of audit procedures Issue opinion on the Council's financial statements 	Whole of Government Accounts assurance statement to NAO (as required)	TBD - due 30 September 2020
NOV		Certify Annual Financial Statements	12 October 2020
DEC		Issue Annual Audit Report	
	<ul style="list-style-type: none"> Completion of Non-Domestic Rates return testing 	Certified Non-Domestic Rates return	TBD - due for submission 9 October 2020
	<ul style="list-style-type: none"> Completion of Housing Benefits claim testing 	Certified Housing Benefit subsidy claim	TBD - Audit Scotland deadline 28 February 2021

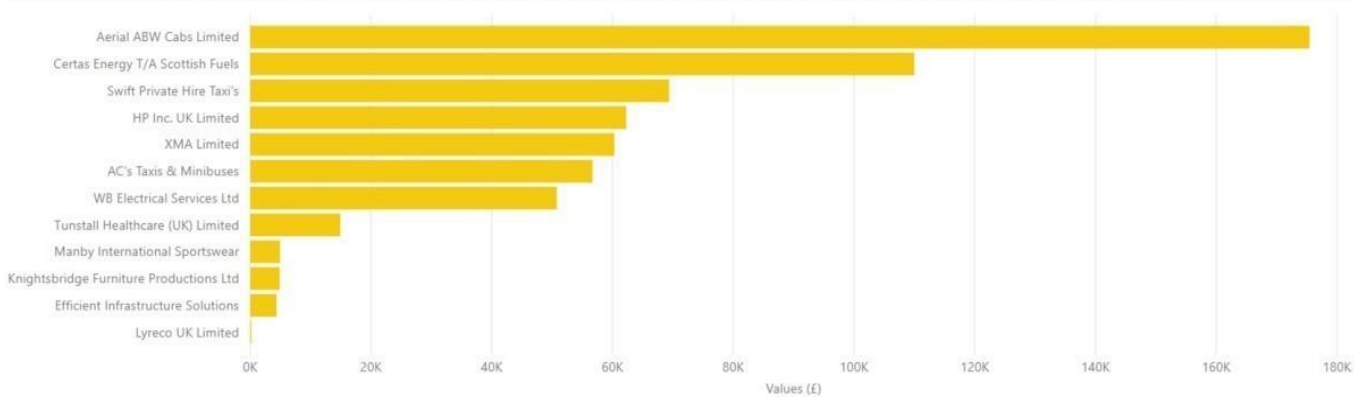
Appendix G: Detailed Procurement Analysis

Exhibit A: Potential Purchase Order Splitting to Circumvent Approval Threshold

The chart below highlights where multiple Purchase Orders were approved:

1. for the same supplier,
2. on the same day; and
3. Where the total combined value exceeds that threshold

Suppliers where multiple PO's raised on the same day which exceed approval thresholds



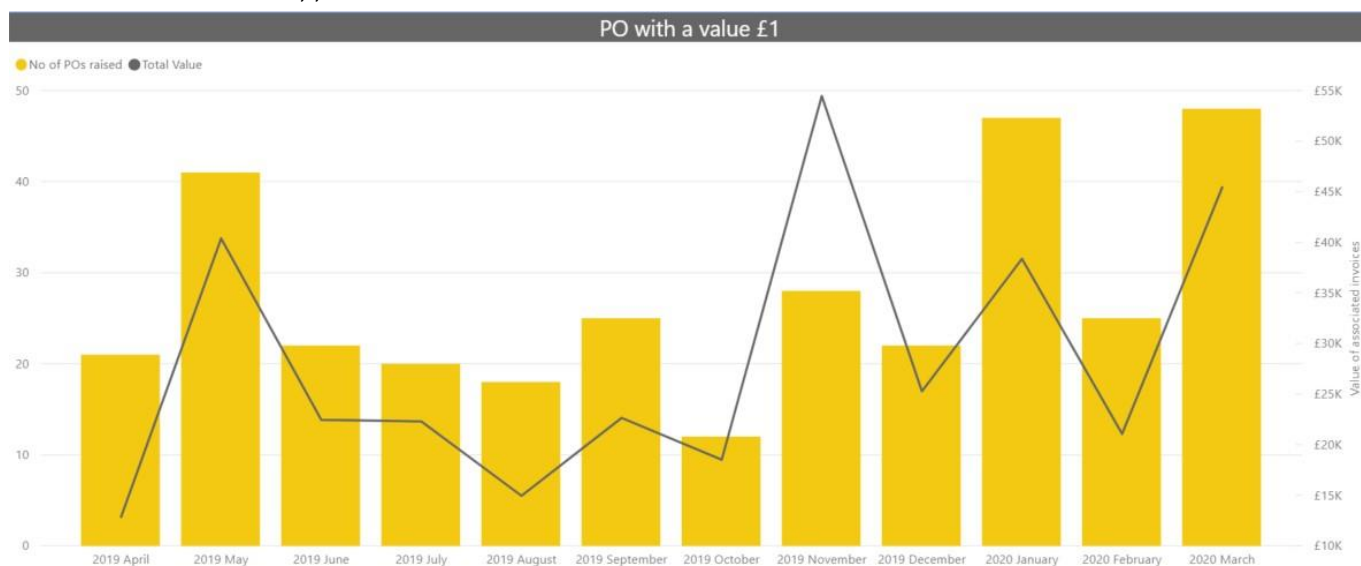
Analysis of authoriser information

Authoriser	Supplier name	Year	Month	Day	No of POs Raised	Total value of PO raised	Approval Threshold
		2019	April	10	17	175,450.00	50,000.00
		2019	April	2	6	110,000.00	50,000.00
		2019	April	23	3	69,400.00	50,000.00
		2020	February	20	2	62,289.90	50,000.00
		2019	April	9	2	56,700.00	50,000.00
		2020	March	19	3	51,865.93	50,000.00
		2020	February	26	7	50,792.24	50,000.00
		2019	April	11	3	5,745.50	4,166.00
		2019	June	12	2	5,003.92	4,166.00
		2019	April	22	2	4,950.00	4,166.00
		2020	January	14	2	4,893.00	4,166.00
		2019	July	9	2	4,384.00	4,166.00
		2019	October	30	3	4,271.44	4,166.00
		2019	May	17	3	4,189.40	4,166.00
		2020	March	20	2	4,177.00	4,166.00
		2019	October	1	2	139.55	100.00

Our conclusion: We reviewed the matches including the underlying purchase orders and invoices, and where necessary discussed with the Finance Team. We did not identify any unusual activity that would indicate purchase order splitting.

Exhibit B: Purchase Orders for £1

Where Purchase Orders (PO) were raised for a value of £1 but the associated invoices were for a value in excess of £1. This exception was identified in relation to two suppliers.

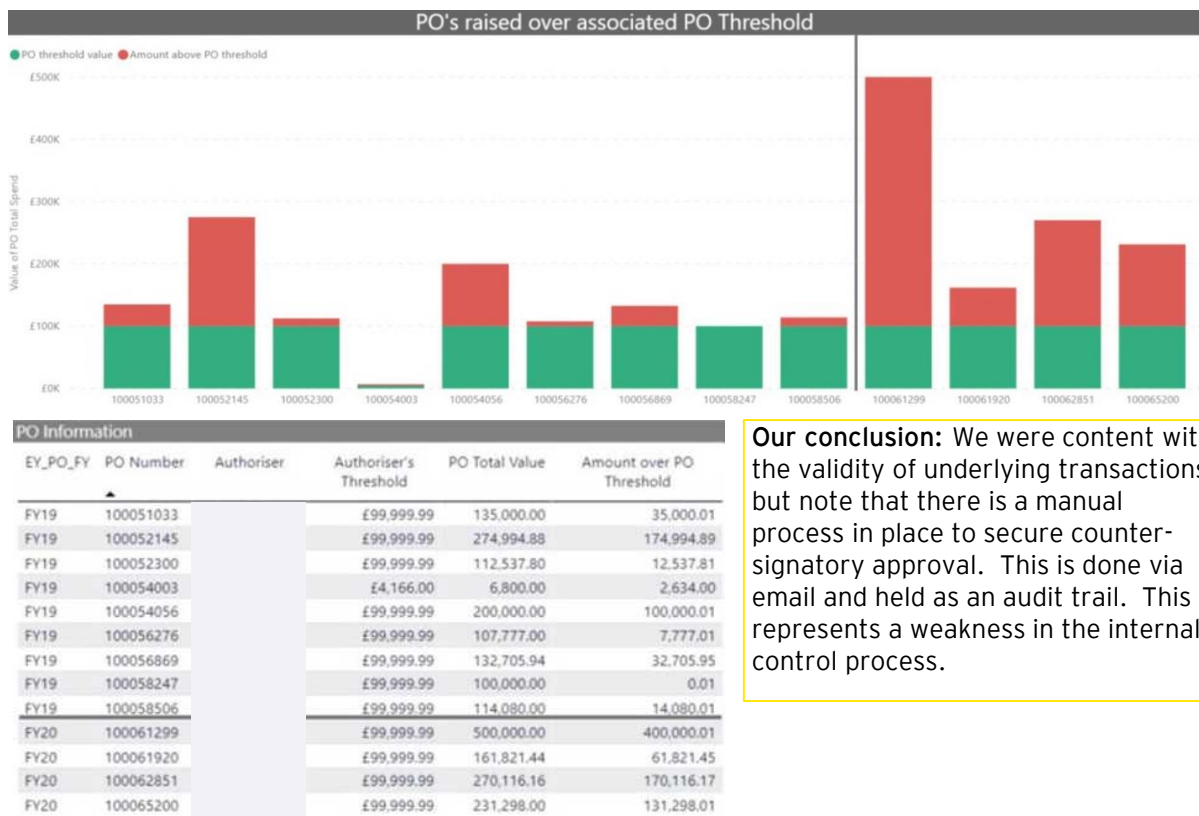


Supplier Information			
Supplier Code	Supplier Name	Total value of Invoices	No of associated Invoices
33747500		£2,346.92	1
33587500		£336,383.60	328
Total		£338,730.52	329

Our conclusion: The Council should review the use of purchase orders for £1 to assess whether more appropriate processes can be established to manage this weakness.

Exhibit C: Purchase Orders raised that exceed Approval Threshold

The chart below highlights a number of cases where a senior officer acted as a counter-signatory to purchases which exceeded his nominal authorisation limit of £100,000.



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Financial Statements for the year ended 31 March 2020

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Decision

1 Recommendation

Audit Committee is recommended to approve the 2019/20 audited accounts for signature having regard to the appointed auditor's report for 2019/20.

2 Purpose of Report/Executive Summary

The purpose of this report is to present the Council's audited Financial Statements for 2019/20 to Audit Committee and to provide a brief overview of the changes made during the audit process.

5th October 2020.

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 2020 and they were examined in detail at a special Audit Committee on Monday 18th August 2020.

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.

In line with the UK's Financial Conduct Authority, Scottish Ministers advised that, under provisions made in the Coronavirus (Scotland) Act 2020, each authority may determine its date of publishing the Annual Accounts up to the 30 November 2020 – an extension of 2 months on the previously stipulated deadline. The Council considered this but determined that it wished to continue to work as closely as possible to the previously planned timetable of 30 September 2020 for completion of the audit and approval of audited financial statements.

Accordingly the accounts are presented to Audit Committee today as required by the regulations alongside the Annual Audit Report to Members and the Controller of Audit – year ended 31 March 2020 prepared by the appointed external auditor, Ernst & Young LLP.

The external auditors report will also be presented to Council on Tuesday 17th November 2020 and a copy of the audited accounts will be provided to all members of Council.

3.2 Differences arising during the audit process

EY have issued an unqualified audit opinion on the 2019/20 financial statements for the Council and its Group.

There is one unadjusted judgemental audit difference relating to additional updated information being made available in relation to the Local Government Pension Scheme. Nine adjustments were processed as part of the audit, primarily relating to challenge associated with the valuation of property, plant and equipment. The Local Government Pension Scheme net liability valuation was also amended following updated information being made available after the unaudited financial statements were published. Details of the adjustments are outlined in Appendix E to the EY report.

These adjustments have no impact on the financial outturn for the year or the useable reserves at 31 March 2020 as reported to Council on 16th June 2020.

3.3 Management Commentary, Annual Governance Statement and Disclosures

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

The continuing change to circumstances driven by Covid-19 led to a number of disclosure changes within the financial statements. These reflect developing risks, additional information becoming available in respect of the valuation of key judgements and estimates in the financial statements, and agreement between management and the audit team on key disclosure requirements for areas of specific focus in 2019/20.

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

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

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

4.2 Digital

There are no digital issues arising directly from this report.

4.3 Risk

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

4.4 Ensuring Equalities

There are no equality implications arising directly from this report.

4.5 Additional Report Implications See Appendix A

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

No consultation was required.

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

Appendix – Draft Audited Financial Statement s 2019/20



Vogrie Country Park

MIDLOTHIAN COUNCIL AUDITED FINANCIAL STATEMENTS 2019/20



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Management Commentary

The Management Commentary provides an overview of the Council's financial and service performance for the year, its financial outlook, risks and non-financial strategic and contextual information about the Council.

The Annual Accounts present the financial position and performance, for the year to 31 March 2020, demonstrating the stewardship of the public funds that support the Council's key priorities.

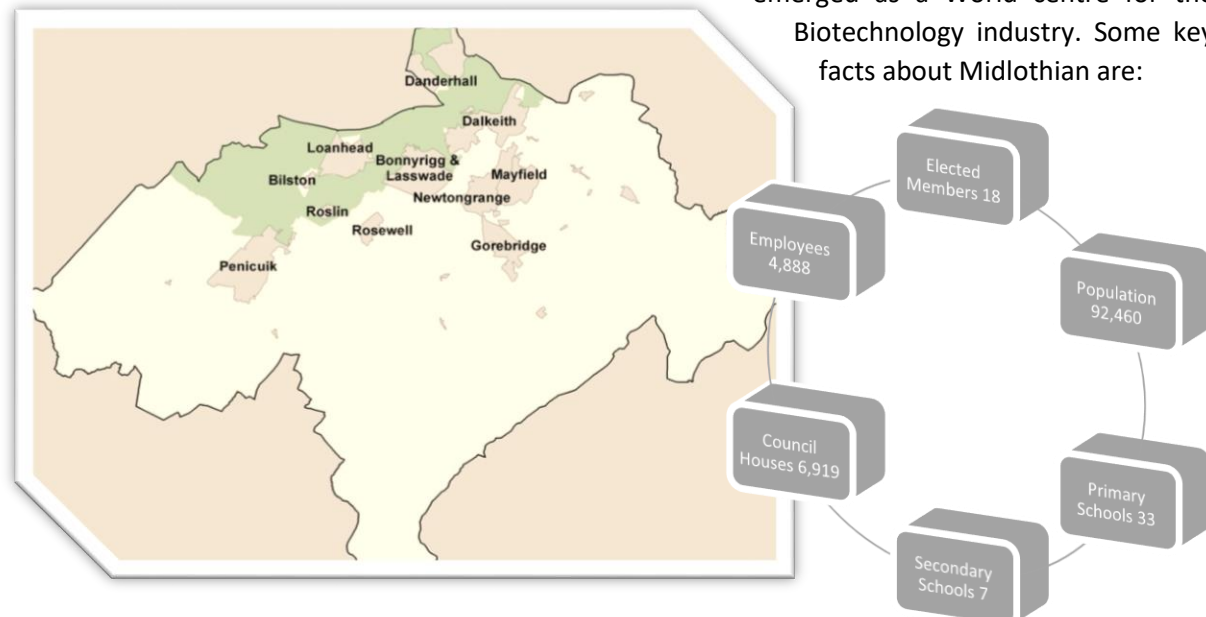
In the first quarter of 2020 a coronavirus outbreak (COVID-19) activated across the globe. This resulted in United Kingdom and Scottish Governments imposing restrictions through guidance and law on the movement of people which came into full effect on 23 March 2020. The impact has led to a "shutdown" of approximately 80% of all economic activity within the UK and large-scale government financial intervention, some of which local government was asked to administer. This has led to significant level of increased economic uncertainty for Midlothian and the Council. The latest assessed implications have been incorporated, where possible, throughout this document.

The Annual Accounts are prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* and are, by necessity, technical in places. The impact of the COVID-19 outbreak was considered by CIPFA-LASAAC in respect of any adjustments required to the Code and it was concluded that full application of the published 2019/20 Code would continue to apply. In line with the UK's Financial Conduct Authority, Scottish Ministers advised that, under provisions made in the Coronavirus (Scotland) Act 2020, each authority may determine its date of publishing the Annual Accounts up to the 30 November 2020 – an extension of 2 months on the previously stipulated deadline. The Council considered this but determined that it wished to continue to work as closely as possible to the previously planned timetable authorising the Unaudited Accounts for issue by 30 June 2020.

This situation is not unique to local authorities or indeed the wider public sector. In a statement the Financial Conduct Authority (FCA), Financial Reporting Council (FRC) and Prudential Regulation Authority (PRA) "strongly encourage investors, lenders and other users of financial statements to take into account the unique set of circumstances arising from COVID-19 which might result in uncertainty in companies' financial positions, potential delays in the provision of financial information, the need for auditors to undertake additional work to support their audit opinions and the increased use of modified audit opinions, including qualifications arising from scope limitations." In preparing these Annual Accounts the Council continued to consider guidance and standards to ensure that they reflect the most practicably transparent information for users.

Midlothian

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



Key Priorities and Objectives

Midlothian Council's vision and priorities are set out in the Single Midlothian Plan (SMP), these priorities are delivered through the Community Planning Partnership (CPP) which sets out how we work with communities and partners to deliver our vision, which is based on two key principles of 'People' and 'Place':

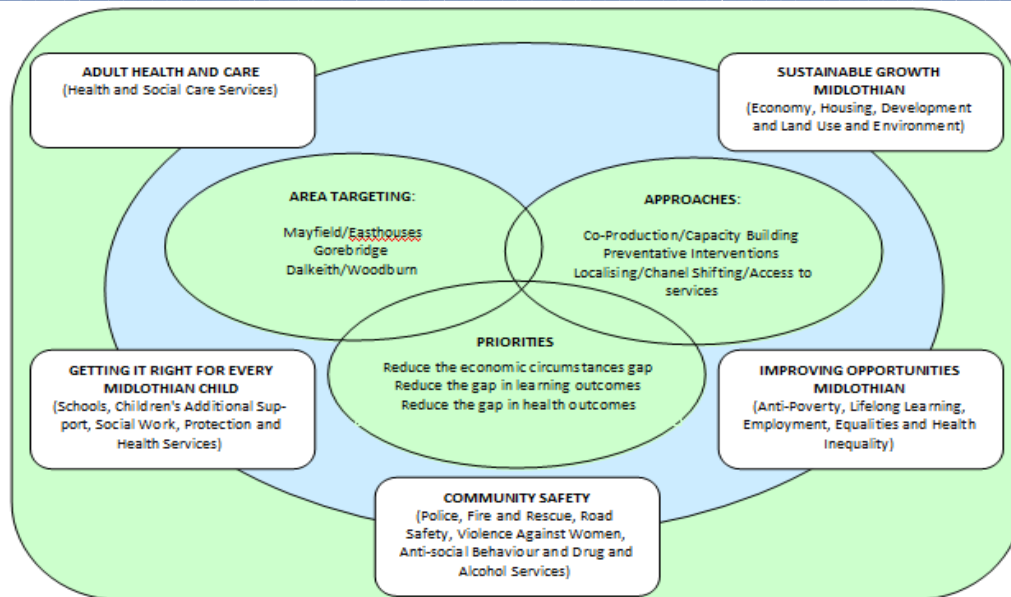
"Midlothian – A Great Place to Grow"

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

The top priorities in the SMP extended to 2022 are as follows:

- Reducing inequalities in learning outcomes;
- Reducing inequalities in health outcomes;
- Reducing inequalities in economic circumstances.

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



The 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 2019/20 can be found on the Council's website.

<https://midlothian.cmis.uk.com/live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/963/Committee/4/SelectedTab/Documents/Default.aspx>

Key Achievements and Highlights for 2019/20

Edinburgh and South East of Scotland City Deal

This will see £1.3 billion invested across the South East of Scotland with innovative programmes taking place linked to skills development for our young people, transport and housing solutions and driving forward the ambition to be the data capital of Europe bringing in more jobs and opportunities for Midlothian and the surrounding area.

Midlothian Council wins 'Council of the Year' at the Scottish Diversity Awards 2019

Midlothian Council has won 'Council of the Year' in the Scottish Diversity Awards 2019. Midlothian was one of ten councils to be shortlisted in the category including Glasgow City Council, City of Edinburgh Council, Falkirk Council and Highland Council.

The Scottish Diversity Awards exist to celebrate individuals, organisations, and businesses that actively contribute towards efforts to make Scotland a culturally diverse and integrated country.

Midlothian was selected as the winner for organising Equal Midlothian Week and the Midlothian Mela. Both events celebrate the contribution that people from different backgrounds make to their local community.

Newbattle High School – Scottish Education Award Winners



This award recognises the changes made in Newbattle High School including the vision, new curriculum, pastoral structures, leadership opportunities for staff/students, our Digital Centre of Excellence among other aspects. It also further validates the impact the changes are having on improving outcomes for our pupils and community.

Council Houses Built

During 2019/20 a further 29 new Council Houses were completed. This brings the total completed to 1,191 over the past 13 years.

Financial Performance for 2019/20

The Council's financial performance is presented in the Comprehensive Income and Expenditure Statement, provided on page 39. This statement has been prepared using the International Financial Reporting Standards. To show the net position of the Council, it is necessary to adjust the Comprehensive Income and Expenditure Statement for statutory items that require to be taken into account in determining the position of the General Fund and Housing Revenue Account for the year. These are summarised in the Movement in Reserves Statement provided on page 40.

An Expenditure and Funding analysis has been provided to reconcile adjustments between the Council's financial performance under the funding position and the surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis can be found on page 43 and the Expenditure and Income Analysed by Nature in Note 12.

a) General Fund Performance

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

The table overleaf shows that the Net General Fund expenditure for 2019/20 was £207.024 million (2018/19 £204.746 million), which was £0.506 million more than budgeted. Adjusting for Council Tax Income and Scottish Government Grant received results in a net underspend for the year of £0.102 million which is transferred to reserves. Full details of financial performance against budget were reported to Council on 16 June 20 and are available on the Council's website. The reconciliation in the table overleaf assists users of the Accounts to navigate from the Midlothian Council Budget Monitoring position to the first column in the Expenditure and Funding Analysis.

Midlothian Council Budget Monitoring				Building the Expenditure and Funding Analysis		
Service Area	Budget	Net Expenditure	(Under)/Overspend	Budget Monitoring Net Expenditure	Adjustments for Internal Reporting Purposes	Net Expenditure chargeable to the General Fund and HRA Balances
	£000	£000	£000	£000	£000	£000
Management	2,000	2,009	9	2,009	(48)	1,961
Children's Services	15,971	15,139	(832)	15,139	0	15,139
Communities and Economy	1,793	1,249	(544)	1,249	592	1,841
Education	93,249	93,249	0	93,249	(9,575)	83,674
Adult Social Care - Delegated	42,593	42,593	0	42,593	0	42,593
Adult Social Care - Non Delegated	690	593	(97)	593	0	593
Customer & Housing Services	10,358	10,628	270	10,628	(6,717)	3,911
Commercial Services	13,183	13,307	124	13,307	(1,093)	12,214
Finance and Integrated Service Support	10,313	10,320	7	10,320	(606)	9,714
Properties and Facilities Management	13,610	14,848	1,238	14,848	(741)	14,107
Lothian Valuation Joint Board	534	549	15	549	0	549
Central Costs	259	346	87	346	(1,283)	(937)
Non-Distributable Costs	1,620	1,532	(88)	1,532	0	1,532
Housing Revenue Account	0	0	0	0	(15,936)	(15,936)
Loan Charges	5,681	5,568	(113)	5,568	20,446	26,014
NDR - Discretionary Relief	70	95	25	95	(95)	0
Investment Income	(406)	(52)	354	(52)	52	0
Savings Targets	(46)	0	46	0	0	0
Allocations to HRA, Capital Account etc.	(4,954)	(4,949)	5	(4,949)	4,949	0
Net General Fund Expenditure	206,518	207,024	506	207,024	(10,055)	196,969
Less Funding:						
Scottish Government Grant	160,220	160,626	406	160,626	65	160,691
Council Tax Income	50,987	51,189	202	51,189	(4,810)	46,379
Total Funding	211,207	211,815	608	211,815	(4,745)	207,070
General Fund Utilisation of Reserves	4,689	4,791	102	4,791	5,310	10,101

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

- A £2.391 million shortfall in delivering the package of £7.988 million of transformational, operational and service cost reductions and income generation measures approved by Council;

- Costs of £0.436 million incurred in respect of the capital project to construct a new Resource Centre being considered abortive and written off to revenue;
- Running costs in excess of budget associated with design and repairs cost of public buildings of £0.494 million;
- A rescinded dividend of £0.421 million in respect of the Council's shareholding in Lothian Buses' which was an early COVID-19 measure taken by the company;
- The impact of strict vacancy control across the council resulting in a £1.783 million underspend against budget;
- Child placements, previously with external agencies, which moved to Midlothian Carers resulting in significant savings of £0.400 million;
- A higher than expected number of Building Warrant and Planning applications yielding income in excess of budget of £0.307 million.

The Council approved the Reserves Strategy in February 2019 setting the minimum level of uncommitted reserve at £3.3 million. In 2019/20 there was an increase of £4.791 million in the General Fund Reserve comprising of an underspend of £0.102 million as detailed above, planned use of reserves during the year of £0.449 million and an increase in earmarked reserves of £5.138 million relating to cross year flexibility. The effect of the 2019/20 movement of £4.791 million on the General Fund Reserve balance is demonstrated in the table below with uncommitted reserves £0.748 million in excess of the approved minimum level. Further details are provided in the Movement in Reserves Statement on page 40:

2018/19		2019/20		
Total Reserves	General Fund Reserve	Uncommitted Reserves	Earmarked Reserves	Total Reserves
£000		£000	£000	£000
(10,777)	Balance Brought Forward	(4,104)	(4,533)	(8,637)
2,140	(Increase in) / use of Balances	56	(4,847)	(4,791)
(8,637)	General Fund Reserve Balance	(4,048)	(9,380)	(13,428)

The movement in the Earmarked General Fund balance of £4.791 million is outlined in Note 8 on page 67, which reflects the movements attributable to Earmarked Reserves.

b) General Fund Capital Expenditure

The Council continues to make significant capital investment in its non-housing assets to provide essential infrastructure to meet the needs of a growing population. In 2019/20 the final budget for capital investment was £34.123 million (2018/19 £21.496 million), with 97% of this being delivered. The table below identifies actual capital spend during the financial year for key projects:

2018/19 £000	General Fund Capital Spend	2019/20 £000
4,600	School Estate	21,765
3,600	Roads, Pavements and Street Lighting	5,168
800	Fleet Replacement and Upgrades	781
2,000	Digital Assets	1,198
3,100	Centralised Property Upgrades	937
4,100	Other Capital Projects	3,250
18,200	Total Spend	33,099

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

c) Housing Revenue Account (HRA) Performance

The Council has a statutory obligation to maintain a revenue account for its housing provision in accordance with the *Housing (Scotland) Act 1987*. The Housing Revenue Account records all income and expenditure relating to the Council's own housing stock. Rent paid by tenant's funds the revenue expenditure on housing management, repairs and maintenance and financing of capital expenditure. The table below provides analysis of financial performance for 2019/20:

2018/19 £000	Housing Revenue Account Balance	2019/20 £000
(33,862)	Opening Balance	(39,084)
(824)	(Positive) / Adverse Variance against Budget	(923)
(4,398)	Planned Increase of HRA Reserve	(4,388)
(39,084)	Closing Balance	(44,395)

Overall, the majority of operational costs showed favourable variances at the year-end due to rephasing of the Capital Plan resulting in reduced borrowing costs for the year. The closing balance on the Housing Revenue Account reserve is £44.396 million. This is available to meet the Council's ambitious capital investment plan, which currently runs to 2033/34 to build further new housing stock and continue to improve and upgrade its existing stock, particularly through Scottish Housing Quality Standards (SHQS) improvement works. The majority of this plan is funded through prudential borrowing with costs of borrowing met from rental income and planned utilisation of the HRA reserve, which is projected to reduce to approximately £2 million by the end of the plan.

d) Housing Capital Expenditure

The table below demonstrates the breakdown of the Housing Capital Spend for 2019/20 mentioned above:

2018/19 £000	Housing Capital Spend	2019/20 £000
8,426	New Social Housing	18,690
5,933	SHQS Improvement Works	5,701
359	Other Small Capital Projects	544
14,718	Total Capital Spend	24,935

In the period to 31 March 2025 it is planned to invest a further £158.125 million on increasing Council housing stock and £26.522 million on SHQS improvements.

e) Capital Financing Requirement

The Council is able to regulate its own spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and endorsed by Scottish Government, provided it operated 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.

The Capital Financing Requirement represents the Council's underlying need to borrow for capital expenditure. Statutory controls exist to ensure debt is affordable and repaid over a reasonable timeframe as the capital financing requirement is not allowed to rise indefinitely. The table below shows the outturn capital-financing requirement compared to the actual external borrowing:

2018/19 £000	Capital Financing Requirement	2019/20 £000
237,279	Actual External Borrowing	269,077
274,879	Capital Financing Requirement	284,750
37,600	Under / (Over) Borrowed	15,673

This demonstrates that the Council maintains its intention to have an under borrowed position. This means that the Council's capital borrowing requirement has not been fully funded by loan debt and is using cash from working capital, reserves and balances to support capital programmes whilst investment returns are low.

f) Borrowing

During the year, the Council's aggregate external debt was contained within both operational boundary and the authorised limit. The authorised limit of £524.349 million for 2019/20 (2018/19 £482.021 million) reflects the level of debt which could be affordable in the short term but may not be sustainable in the long term. The operational boundary of £346.056 million for 2019/20 (2018/19 £325.196 million) is an estimate of the most likely maximum debt requirement and represents the limit beyond which external debt is not expected to exceed.

The ratio of financing costs to net revenue stream represents the proportion of the budget allocated to the financing of capital expenditure and highlights the trend in this allocation through financial years. Actual figures for General Services were 2.69%, which is in line with approved strategy, and 36.23% for HRA, which is reflected in the long-term HRA financial plans to 2034/35.

As mentioned above, the total borrowing for 2019/20 to meet actual capital expenditure requirements and to refinance maturing loans after allowing for debt repayments was £76.5 million. The average rate of interest paid on all external debt decreased to 3.44% in 2019/20 from 3.62% in 2018/19. The internal loans fund rate decreased from 3.12% in 2018/19 (4th lowest in mainland Scotland) to 2.95% in 2019/20 and it is again expected to remain one of the lowest amongst Scottish mainland Local Authorities.

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

g) Balance Sheet as at 31 March 2020

The Balance Sheet on page 41 summarises the Council's assets and liabilities as at 31 March 2020. Total net assets increased by £113.190 million from the position at 31 March 2019.

	31 March 2020 £000	31 March 2019 £000	Change £000
Long-term Assets	903,398	791,795	111,603
Current Assets	134,274	101,442	32,832
Current Liabilities	(91,235)	(91,059)	(176)
Long-term Liabilities	(457,864)	(426,795)	(31,069)
Total	488,573	375,383	113,190

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

- Long-term Assets – Asset growth of £83.603 million, including the Residual Waste Recycling Plant at Millerhill, alongside a gross upwards movement in asset values of £38.667 million flowing from valuation work undertaken during 2019/20, this is offset by movement in depreciation of £8.284 million and other downwards movements of £2.383 million;
- Current Assets and Long-term liabilities – Long Term Public Works Loans Board borrowing, taking advantage of low interest rates and recognising the Council's current under borrowed position, was undertaken during 2019/20. This is reflected in the Balance Sheet at 31 March 20 with increased long-term liabilities sitting alongside higher short term and liquid investments.

The council has made provisions for potential liabilities in respect of unsettled insurance claims of £0.836 million (2018/19 £0.760 million).

The provision for non-collection of debt at 31 March 2020 was £37.707 million (2018/19 £35.782 million). There were a number of immaterial write offs approved by Cabinet during the year.

h) Pension

The net pension liability of the Council as at 31 March 2020 was calculated in accordance with the requirements of *International Accounting Standard 19 (IAS 19)* and amounts to £97.719 million, which is a decrease of £26.640 million from 31 March 2019. The main reason for this is a higher net discount rate compared to the 2018/19 valuation, which places a lower value on benefits due to be paid in the future.

IAS 19 is based on the principle that an organisation should account for retirement benefits at the point which it commits to paying them, even if the actual payment will be made years into the future. It should be noted this is a snapshot of the position at 31 March 2020. The triennial actuarial valuation of the Lothian Pension Fund, which takes a longer-term view, will consider the appropriate employer's contribution rates and this, together with employee contributions and revenues generated from the Pension Fund Investments, will be used to meet the fund's commitments as they arise. The last actuarial valuation at 31 March 2017 showed a funding level of 98% of liabilities, which was a 5% increase from the previous valuation at 31 March 2014. The next triennial valuation is taking place as at 31 March 2020 and contributions for 2020/21 will be set through this and are reflected in the Council's Medium Term Financial Strategy.

Financial Outlook

The Council's Long Term financial outlook highlights significant funding pressure that the Council may face over the next few years. On 11 February 2020 Council agreed an updated Medium Term Financial Strategy (MTFS), which sets out budget projections for the next three financial years. The MTFS to 2023/24 sets out cost projections for pay inflation, price inflation and the impact of demographic changes together with income projections and the impact of a range of measures designed to achieve significant progress towards addressing the projected budget gaps.

As the situation with the COVID-19 pandemic continues to evolve, Midlothian Council is ensuring essential services to its citizens continues to be delivered as a priority. The Council is working with the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to monitor the level of additional cost pressures and reduced income levels arising from COVID-19, which has impacted the Council's ability to ensure a balanced financial position in 2020/21.

While there remains uncertainty around Covid-19 implications going forward, an update to Council on 25 August 2020 forecast an additional net cost resulting of £2.281 million. This comprises £1.385 million net COVID-19 response costs, a £4.342 million loss in income offset by additional Government funding of £3.446 million. The net financial pressure faced in 2020/21 also includes the non-delivery of some planned savings.

In addition to known costs during the lockdown period, there is a high risk that further significant costs will continue to be incurred during financial year 2020/21. The identification of any emerging risks will inform discussions with the Scottish Government over funding. Officers will review and develop plans to allow services to be delivered in line with Government recommendations. The introduction of safety measures, such as social distancing, is likely to result in further costs. Areas where further expenditure could emerge include school transportation, social care provision and homelessness.

The council's minimum uncommitted general fund balance is £3.3 million. The uncommitted general fund balance at 31 March 2020 is £4.049 million. The most recent budget monitoring update for 2020/21 reported to Council in August forecasts an overspend of £1.190 million which without further action would result in an uncommitted general fund balance of £3.442 million at 31 March 2021. This provides very limited opportunity to use some of the balance to support further net costs associated with the pandemic in 2020/21. The latest budget savings monitoring forecasts that the Council will achieve £1.959 million of its planned £4.461 million savings for 2020/21. The HRA balance at 31 March 2020 £44.396 million and projected to reduce by £6.151 million during the year. The longer-term financial projections demonstrate that the majority of the HRA reserve will be required to finance existing investment commitments to 2035/36.

The Council continues to regularly monitor its financial position and provide full financial updates to Council Management Team and the Council as appropriate, including options on addressing any new budget gaps 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 Scottish Government has confirmed that some ring fenced grants can be utilised to support the Covid-19 response.

Key Risks

The current economic climate affects the Council and the services it provides in a number of ways. From a financial perspective 2019/20 saw continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care and the significant population growth in Midlothian. These pressures continue and present a considerable challenge to the Council in both financing them and transforming services to improve ways of managing some of the implications of these pressures. Welfare reform, the integration of health and social care and the implementation of the *Children Act 2014* as well as the planned expansion in early learning and childcare are major policy developments that will not only affect the Council budgets but also change the way services are provided.

Pay inflation and Scottish Government Grant Income projections are critical areas of modelling given their overall significance and uncertainty. For 2019/20 and again for 2020/21 the Scottish Government published a one year budget and grant settlement, and as such Councils are currently unaware of the level of funding that will be available to them beyond 2020/21. There are a number of factors, which will influence the level of grant support the Council might expect for 2021/22 and beyond. Among these will be a range of economic factors which will influence the resources Scottish Government has at its disposal, whether from the UK Government block grant or through tax revenues directly controlled by Scottish Government. The other main factors will be the taxation and spending priorities of the Scottish Government and the negotiations with other parties in the Scottish Parliament to support the passage of the budget bill.

Whilst an assessment of economic factors can be made at this time, based on the information available from the Office of Budget Responsibility, the Scottish Fiscal Commission and Scotland's Fiscal Outlook, the Scottish Governments second medium term financial strategy and the impact of Scottish Governments tax and spending priorities will only become apparent when the Scottish Governments 2021/22 budget is published in December 2020.

In February 2020 the Council set a budget for 2020/21 which included savings of £6.472 million and increases in council tax funding of £2.365 million. In the context of reduced funding and growth in demand for services, the Council has a considerable challenge to ensure its future expenditure plans are sustainable. The latest projections show the Council has a budget gap of £3.5 million in 2021/22 rising to £9.7 million by 2022/23.

Impact of COVID-19

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

'We have already seen significant impacts on the functioning of the global economy through substantial volatility and disruption to financial markets and international supply chains while at a domestic level, businesses and households are facing significant negative impacts on incomes and cashflow resulting from a collapse in demand amid restrictions on economic activity.'

The Council recognises the economic challenges it operates within. It delivers a wider range of enabling services (transport / roads, housing, planning and education) that are crucial to the functioning of the South East Scotland City Region.

The overall economic impact is already significant, but will hopefully be temporary, and is required to support the public health effort. The economic policy response to the pandemic has seen unprecedented levels of support to business, households and individuals during a period in which they are required to be economically inactive. It has seen a combination of fiscal, monetary and macro-prudential measures put in place that exceed those from the financial crisis.

The nature, timing and scale of the economic recovery will depend on the success of measures to contain the pandemic in Scotland, the UK and in our key trading partners. It will also depend on the pace and timing of the global economic recovery and international policies in place (e.g. travel restrictions and social distancing) that could continue to impact economic activity in Scotland through trade and foreign direct investment.”

The full document can be found at: <https://www.gov.scot/publications/state-economy-april-2020/>

Midlothian Council, at their meeting on 16 June 2020, approved the Midlothian Route Map through and out of the Crisis and an Economic Renewal Strategy. Both are key strategic documents.

Brexit

The council's corporate management team has established an EU Exit Working Group to oversee service and Council preparations for EU withdrawal and ensure that the specific risks associated with a no deal exit could be assessed. The Working Group has drawn on support from the Scottish Government's Scottish Resilience Partnership (SRP) EU-Exit Sub-Group and CoSLA to consider the implications of EU Exit for the Council in terms of potential changes to procurement, data protection, planning, environmental legislation, employment law and grant funding. The Council's risk assessment highlights the steps the Council will take to mitigate the potential impacts, in the event that a No Deal EU exit occurs. In the event that the UK leaves the EU without a deal, council arrangements are focussed on maintaining the delivery of critical services, maintaining normal service delivery as far as possible, identifying, protecting and supporting those who become vulnerable as a result of an EU Exit and to work closely with partners during planning and response phases of leaving the EU. The Council have a Contingency Plan which sets the framework used to respond to a range of contingency incidents. Services have reviewed their business continuity arrangements and have had to implement Critical Service working through 2020 as part of the COVID-19 Pandemic response. The EU Exit working group reviewed the EU exit risk register as part of its preparatory planning exercise in 2019 for a potential no deal exit. Regular fortnightly meetings of the EU Exit Working Group recommenced on 10 September 2020 chaired by the Chief Officer- Place, in preparation for the UK's EU exit transition period coming to an end at 31 December 2020.

Integrated Joint Board (IJB)

Covid-19 represents an unprecedented challenge for the delivery of health and social care services and while the financial impact in 2019/20 was not material, it is clear there will be significant additional costs resulting in 2020/21. Taking account of this integration authorities have submitted Local Mobilisation Plans detailing how they are responding to the resulting impact on care services. These plans and associated financial cost estimates are being closely reviewed with regular updates being provided to the Scottish Government. These updates take account of both modelled costs for the year

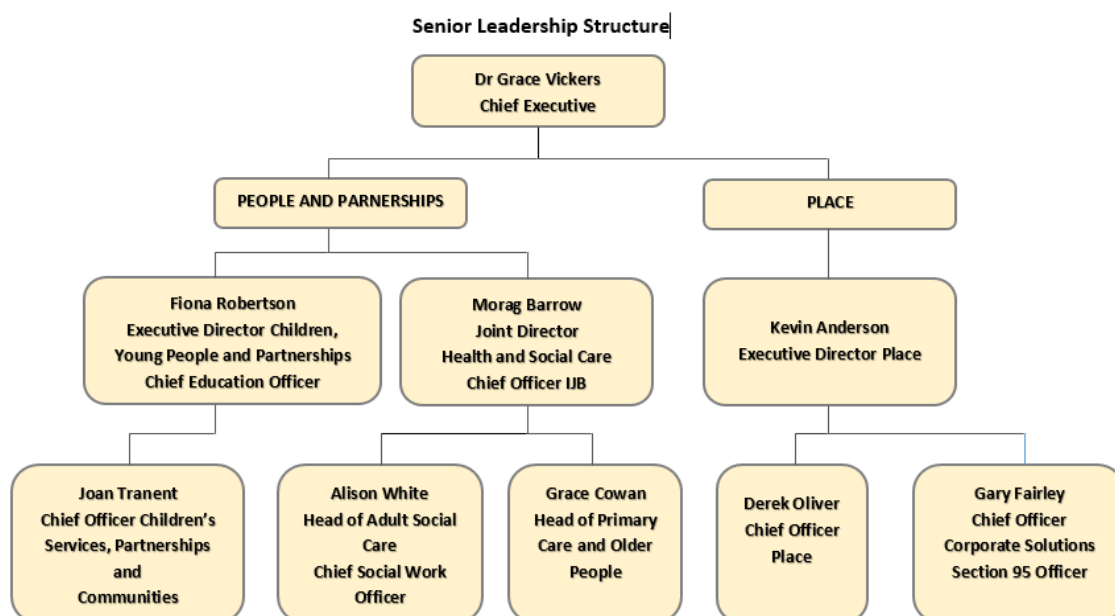
and the tracking of actual costs as they are being incurred. Regular updates on the financial implications reflected in the Mobilisation Plan cost updates are also reported to the IJB. The IJB has a statutory responsibility in relation to the strategic planning of future health and social care delivery. The implications arising from Covid-19 on delivery of care services and current strategic planning and commissioning plans is being kept under close review.

Emerging Issues, Service Changes and Future Developments

As the fastest growing local authority in Scotland, Midlothian Council will invest approximately £394 million to deliver and develop local services in 2020/21. However, with a rapidly growing population and greater demand for services, the Council has recognised the need for a strategic step change in the form of the development, agreement and implementation of a Medium Term Financial Strategy, mentioned earlier, together with the proposed resource allocation measures that will enable the Council to balance revenue budgets for each financial year.

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

During 2019/20 a restructure of the Council's Senior Management Team, as illustrated in the table below, took place to better integrate services and draw out greater efficiencies. The Council consolidated into two service delivery portfolios, People and Partnerships with two Strategic Directors (one shared with the NHS) and Place with one Strategic Director. This approach will maximise the efficiency and effectiveness of service delivery for communities and the employment opportunities for staff.



In delivering services, it is important to recognise that people are our most important asset. Our people have the potential to have a positive impact every day and can deliver life-changing impacts for our communities. Therefore, to maximise that positive impact it is imperative that we work as One Council by removing any institutional barriers and eliminate silo working to enable the organisation

to implement simple solutions, which make a big difference. This means placing our citizens and communities at the centre of our daily work; growing our own talent and empowering our staff, thereby enabling Midlothian to fulfil its potential as a Great Place to Grow.

Conclusion

2019/20 remained a challenging year from a financial perspective, with continued increasing demand pressures and reduced real terms funding being the dominant issues. Despite this, the Council continued to invest for the future in its asset base to provide essential infrastructure to support the growing population. Despite financial pressures, the Council made significant improvements across a range of areas especially the integration of health and social care. Very significant financial and service challenges lie ahead to ensure the Council has continued financial sustainability.

The impact of the COVID-19 outbreak brings global economic insecurities and specific uncertainties for Midlothian Council. Through our Council governance arrangement for responding to the emergency, and specific financial resilience plans we aim to manage and mitigate risks in a robust way to protect the sustainability of the Council's finances.

Acknowledgements

I would like to acknowledge the significant effort in producing the Financial Statements 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.

Signed: Gary Fairley

Chief Officer, Corporate Solutions

Date:

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

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

Signed: Councillor Derek Milligan

Date:

The Chief Officer, Corporate Solutions Responsibilities

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

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

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

I certify that the financial statements present a true and fair view of the financial position of the Council (and its group) at the reporting date and the transactions of the Council (and its group) for the year ended 31 March 2020.

Signed: Gary Fairley

Chief Officer, Corporate Solutions

Date:

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 2020, 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 setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

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

Framework for Good Governance

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

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

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- B. Ensuring openness and comprehensive stakeholder engagement;
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes;
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;
- F. Managing risks and performance through robust internal control and strong public financial management; and
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016), was approved by Council in December 2017.

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

B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.

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, including the Council's 'Shaping Our Future' plans, using a range of consultation and engagement methods adopted across Services.

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 Change and Transformation programme and individual Service Plans outline how Midlothian Council will deliver its contribution to the Single Midlothian Plan.

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

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

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

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

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

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

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

The Chief Executive has now concluded the Senior Management Review and the corporate management structure (March 2020) now consists of the Chief Executive, two Executive Directors and Joint Director Health and Social Care, and six Chief Officers/Heads of Service. The roles of officers are defined in agreed job descriptions. Staff performance is reviewed on an annual basis in accordance with the 'Making Performance Matter' (MPM) process in place during the year.

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

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

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

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

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

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

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

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

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

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

G. Implementing good practices in transparency, reporting, & 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 2019/20. This is based on work carried out by an in-house and shared services team in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

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

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

The Annual Accounts and Report for 2019/20, setting out the financial position in accordance with relevant accounting regulations, are being prepared.

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

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

The review was informed by assurances from: Internal Audit annual opinion and recommendations; comments and recommendations made by External Auditors and other external scrutiny bodies and inspection agencies; and findings and recommendations within the Accounts Commission's Best Value Assurance Report for Midlothian Council (published July 2019).

In light of the Covid-19 emergency response by the Council commencing in March 2020 and the significant change in the Senior Leadership Team, written and signed assurance statements from the Directors and Chief Officers/Heads of Service were obtained. The self-assessment toolkits will be issued later in 2020 to be used on a continuous basis for 2020/21 annual assurance process.

Improvement Areas of Governance

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

The Corporate Management Team considered the action plan in response to the Best Value Assurance report on 17 July 2019 and the action plan was subsequently approved by Council. A formal report on the progress with the Best Value action plan was approved by Council in February 2020. Significant progress has been made in terms of the improvement actions agreed, summarised as follows:

1. The medium term financial strategy was approved by Council in June 2019.
2. The Council have worked hard to develop and sustain more constructive relationships between members and between members and officers. The cross-party Business Transformation Steering Group is driving forward the medium term financial strategy including the supporting transformation plans. Throughout the Covid-19 Pandemic emergency phase, the Chief Executive met weekly with the group leaders and deputy leaders of the three political groups as part of the regular reporting arrangements agreed.
3. The workforce strategy was approved by Council in December 2019 and further work, as part of the Covid-19 recovery phase, is now taking place to ensure that workforce planning reflects both the medium term financial strategy and the Council's future plans.
4. The capital programme has been accelerated in line with the Midlothian Route Map Through and Out of the Crisis which was approved by Council in June 2020. Supporting capital projects were also approved by Council in June and August 2020.
5. The Council is continuing to implement financial planning arrangements to address remaining budget gaps, underpinned by robust financial budgeting and monitoring arrangements with a quarterly financial monitoring board now meeting to scrutinise in year and future year savings.
6. The Compact has been developed in partnership with the Third Sector in light of the outcome of consultation work through the Services with Communities and will be presented to Council in October 2020
7. Work is underway with elected members in light of the recommendation to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities.

-
8. Reviews are progressing to continue to build on positive elements of community empowerment; increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress.

A further update is planned for presentation to Council in November 2020.

In addition, other improvement actions (9-13 below) have been agreed during the year that are not specifically covered by the above in order to enhance compliance with the Council's Local Code of Corporate Governance:

9. Strengthen resource capacity and skills in the Procurement function to better support Service Managers to comply with the Council's procurement strategy and procedures, and to undertake contract monitoring to demonstrate delivery of value for money.
10. Enhance the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
11. Review and update the Financial Regulations and policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations to reflect changes arising from organisation structures and systems.
12. Provide ongoing leadership training for officers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.
13. In 2019/20 meeting dates were aligned in order that reports would go to CMT or Financial Monitoring prior to Audit Committee or Council where appropriate. Unfortunately, the reporting process did not improve to the extent anticipated and therefore it is essential moving forward that both CMT and Audit Committee are given their place in terms accurate and timeous reports being provided to allow full analysis and scrutiny of financial matters which will help to ensure greater transparency of practice and stronger governance.

In relation to Midlothian Integrated Joint Board (IJB), Health boards and their partner local authorities have a statutory duty under the Public Bodies (Joint Working) (Scotland) Act 2014 to review their Integration scheme every five years. The review of the integration scheme has been delayed during to the Covid pandemic. Both partners have agreed that the current scheme will continue until the new scheme is agreed. It is anticipated that this will be completed in the next few months, dependant on Covid restrictions. The IJB has recently signed off its Assurance statement.

The actions to enhance the governance arrangements in 2020/21 will be driven and monitored by the Corporate Management Team (CMT) on a regular basis in order to inform the next annual review. Internal Audit work planned in 2020/21 is designed to test improvements and compliance. CMT is currently engaged in the review and update of the Council's Local Code of Corporate Governance; this will assist with the 2020/21 annual assurance process.

Conclusion and Opinion on Assurance

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

Covid-19 Response

The Covid-19 pandemic clearly had an impact on business as usual in the delivery of services. On 16 March 2020 Group Leaders agreed the Governance arrangements which would be triggered in the event of a Covid-19 “lockdown”. The Council moved to Critical Service delivery at 15.30 on Friday 20 March 2020. This means that as a Category 1 responder the Council carries out the following three essential functions: Caring for the Vulnerable; Liaising with Resilience Partners; and Supporting Economic Recovery.

The move to Critical Service delivery triggered the Council’s Standing Order 19.2, i.e. decision-making responsibility delegated to the Chief Executive in consultation with the Leader. This arrangement was utilised on a temporary basis during the Covid-19 pandemic incident as a more agile way of decision-making for urgent decisions within its governance arrangements. During this emergency phase, although formal Council and Committee meetings were cancelled, the Chief Executive met weekly using the virtual platforms available with the Leader and Depute Leader; the Administration and the three Group Leaders. Weekly meetings were also offered to each of the three political groups. Formal Council and Committee meetings recommenced in June 2020 using virtual means thus ensuring the safety of elected members, officers and the community.

New innovations, business processes, and technology solutions have been embraced to enable the Council to deliver services to the community in its Category 1 responder role, and in particular for new areas of activity as part of the national response with funding provided by UK and Scottish Government as relevant. For example, Non Domestic Rates reliefs including the Business Grants Scheme (Administered by City of Edinburgh Council on behalf of MLC), Hardship Fund, Scottish Welfare Fund, Food Fund, Supporting Communities Fund, and Third Sector Resilience Fund.

The logistics of delivering services in a radically different way, in order to keep staff safe, and adhere to social distancing and self-isolation measures at the same time, has meant significant changes in when and where services are provided, deployment of a large number of staff who do not deliver critical services to undertake alternative duties, rapidly modernised IT support, and significant partnership working across the community. This was achieved using amended governance arrangements, new ways of decision-making, leadership and implementation including daily Corporate Incident Management Team virtual meetings, conference calls, and systems remote access, weekly updates to Group Leaders, Chief Executive daily message to all staff and Elected Members, and a range of wellbeing supports.

In response to the Covid-19 Pandemic, Council approved the Midlothian Route Map Through and Out of the Crisis in June 2020. This presents an ambitious programme of recovery in line with 9 Drivers for change. In addition, Council also approved the Climate Change Strategy in August 2020 which is a significant document in our overarching aim to be Carbon Neutral by 2030. An updated Economic Renewal strategy was approved by Council in August 2020 in response to the recovery actions required as a result of the pandemic. The Council is also committed to accelerating the Capital Programme and a number of reports were approved by Council in June and August 2020 which Officers are now progressing. The Section 95 Officer’s report on both the emerging financial impact of Covid-19 on the Council and the quarter 1 outturn was approved by Council in August 2020.

To assist with the new virtual meeting cycle and new ways of working as a result of the pandemic, the standard report template was reviewed and clearly outline which reports are for noting and which require a decision. The new format also ensures that the key elements identified in the Midlothian Route Map Through and Out of the Crisis are reflected. Considerations include Resources, Risk, Single

Midlothian Plan and Key Priorities, Key Drivers for Change, Key Delivery Streams, Delivering Best Value, Impact on Performance and Outcomes, Adopting a Preventative Approach, Involving Communities and Other Stakeholders, Ensuring Equalities, Supporting Sustainable Development, and Digital.

As part of our formal review of the Covid-19 pandemic, Nesta were asked to undertake interviews with staff on their experiences through the Pandemic and this was approved by Cabinet in September 2020. The recommendations of this report comprise of five main themes which will form the future direction for the Council: Valuing Community; Remote/Flexible Working; Digital First; Local by default and Education.

The success of the CPP #kindnessmidlothian campaign in harnessing our community planning partnership response to Covid-19 resulted in a significant increase in volunteering during the emergency phase of the pandemic which we plan to build on further as we progress through the recovery phases.

Derek Milligan
Leader of the Council
Date:

Dr Grace Vickers
Chief Executive
Date:

Remuneration Report

Introduction

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

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

Remuneration of Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183) as amended. The Regulations provided for the grading of either councillors for the purposes of remuneration arrangements, as the Leader of the Council, the Civic Head, Senior Councillors or Councillors. The Leader of the Council and the Civic Head 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 2019/20 the Regulations set the salary for the Leader as £29,119 (2018/19 £28,326) and the maximum salary for the Provost as £21,840 (2018/19 £21,245).

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 2019/20, the maximum salary which could be paid to a Senior Councillor was £21,840 (2018/19 £21,245) with the maximum number of Senior Councillors set at eight (excluding the Provost and the Leader). The total remuneration for Senior Councillors should not exceed £157,237 (2018/19 £152,942). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within those maximum limits.

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

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

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

Remuneration of Council Leader, Provost and Senior Councillors

Total Remuneration 2018/19	Councillor	Date From	Date To	Salary	Expenses	Total Remuneration 2019/20
£28,952	D Milligan Council Leader	Apr-19	Mar-20	£29,119	£632	£29,751
£21,275	J Muirhead Depute Leader	Apr-19	Mar-20	£21,839	£30	£21,869
£21,161	P Smail Provost and Group Leader	Apr-19	Mar-20	£21,840	£267	£22,107
£21,409	M Russell Depute Provost	Apr-19	Mar-20	£21,839	£147	£21,986
£0	C Johnstone Senior Councillor - Group Leader	Apr-19	Mar-20	£21,839	£147	£21,986
£21,505	R Imrie Senior Councillor	Apr-19	Mar-20	£21,839	£264	£22,103
£21,365	S Curran Senior Councillor	Apr-19	Mar-20	£21,839	£124	£21,963
£21,392	J Hackett Senior Councillor	Apr-19	Mar-20	£21,839	£116	£21,955
£157,059	Total			£181,993	£1,727	£183,721

The total remuneration of all the Council's elected members (including Senior Councillors above) and including all business expenses for 2019/20 was £0.361 million (2018/19 £0.363 million). Detailed figures for these costs are available on the Council's website.

<https://midlothian.cmis.uk.com/live/Documents/PublicDocuments.aspx>

Remuneration of Employees

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

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

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

During 2019/20, the Council reviewed its Senior Management Structure, the table below details the relevant changes to post titles as well as the remuneration paid to Senior Employees of the Council.

Remuneration of Senior Employee's

Total Remuneration 2018/19	Senior Employee	Date From	Date To	Salary, Fees & Allowances	Total Remuneration 2019/20
£103,676	G Vickers Chief Executive	Apr-19	Mar-20	£120,188	£120,188
£0	M Barrow Joint Director: Health and Social Care (1) (FYE £45,317)	Oct-19	Mar-20	£22,658	£22,658
£42,530	A Short Joint Director: Health and Social Care (1) (FYE £46,363)	Apr-19	Sep-19	£23,182	£23,182
£50,483	K Anderson Executive Director: Place (2)	Apr-19	Mar-20	£109,448	£109,448
£101,884	J Blair Director, Resources (FYE £107,254)	Apr-19	May-19	£22,278	£22,278
£102,070	M Smith Director, Education, Communities & Economy (3) (FYE £109,448)	Apr-19	Mar-20	£96,026	£96,026
£0	F Robertson Executive Director : Children, Young People & Communities (FYE £100,670)	Jan-20	Mar-20	£20,026	£20,026
£80,562	G Fairley Chief Officer - Corporate Solutions (S95 Officer) (4)	Apr-19	Mar-20	£86,008	£86,008
£0	J Tranent Chief Officer: Children's Services, Partnerships and Communities (5)	Apr-19	Mar-20	£86,565	£86,565
£47,467	M Lloyd Head of Education (FYE £76,983)	Apr-19	Aug-19	£30,312	£30,312
£82,182	A White Head of Adult Health and Social Care (Chief Social Work Officer)	Apr-19	Mar-20	£88,630	£88,630
£61,340	A Turpie Legal Services Manager (Monitoring Officer)	Apr-19	Mar-20	£63,125	£63,125
£672,194	Total			£768,446	£768,446

1 - Post joint funded 50:50 with NHS Lothian, M Barrow Full Time Equivalent £90,634;

2 - Post previously titled Director Resources (Acting) (Apr 19- Oct 19);

3 - Remuneration reflects flexible retirement during the year;

4- Post previously titled Head of Finance & ISS (Apr 19 - Dec 19);

5 - From August 19 to Jan 20 Post holder undertook duties associated with the post of Head of Education.

Pension Entitlement

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 2019/20	Contribution Rate
On earnings up to and including £21,800	5.5%
On earnings above £21,801 and up to £26,700	7.25%
On earnings above £26,701 and up to £36,600	8.5%
On earnings above £36,601 and up to £48,800	9.5%
On earnings above £48,801	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		Lump Sum Basis
	Accrual Basis	Accrual Rate	
From 1 April 2015	Career Average	1/49th pensionable pay each year	n/a
From 1 April 2009 to 31 March 2015	Final Salary	1/60th pensionable pay each year	n/a
Prior to 1 April 2009	Final Salary	1/80th pensionable pay each year	3/80th final pensionable salary and years of pensionable service

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

The pension entitlements for Senior Councillors for the year to 31 March 2020 is shown in the table below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

Pension Entitlement for Senior Councillors

Senior Councillors	In-Year Pension Contributions		Accrued Pension Benefits			
	Year to 31 March 2020	Year to 31 March 2019	As at 31 March 2020		Difference from 31 March 2019	
	£	£	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
C Johnstone	4,630	0	1	0	1	0
R Imrie	4,630	4,398	5	2	1	1
S Curran	4,630	4,398	1	0	0	0
J Hackett	4,630	4,398	1	0	1	0
Total	18,520	13,194	8	2	3	1

The pension entitlements for Senior Employees for the year to 31 March 2020 is shown in the table below, together with the contribution made by the Council to each Senior Employees pension during the year.

Pension Entitlement for Senior Employees

Senior Employee	In-Year Pension Contributions		Accrued Pension Benefits			
	Year to 31 March 2020	Year to 31 March 2019	As at 31 March 2020		Difference from 31 March 2019	
	£	£	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
G Vickers Chief Executive	25,480	20,751	9	0	2	0
M Barrow Joint Director: Health and Social Care (1) (FYE £0)	0	0	16	41	16	41
A Short Joint Director: Health and Social Care (1) (FYE £9,634)	4,817	6,309	11	20	3	3
K Anderson Executive Director: Place (2)	21,342	20,232	52	100	8	15
J Blair Director, Resources (FYE £21,342)	1,719	10,007	50	94	1	0
M Smith (3) Director, Education, Communities & Economy (FYE £21,342)	14,228	20,232	35	45	2	1
F Robertson Executive Director : Children, Young People & Communities (4) (FYE £21,342)	4,245	0	6	0	6	0
G Fairley Chief Officer - Corporate Solutions (S95 Officer) (4)	17,136	15,908	42	78	4	4
J Tranent Chief Officer: Children's Services, Partnerships and Communities (5)	17,254	0	29	40	3	2
M Lloyd Head of Education (Chief Social Work Officer) (FYE £14,898)	6,249	9,415	0	0	0	0
A White Head of Adult Health and Social Care	17,254	15,908	19	8	2	0
A Turpie Legal Services Manager (Monitoring Officer)	13,103	12,167	29	52	2	3
Total	142,827	130,929	298	478	49	69

1 - Post joint funded 50:50 with NHS Lothian, M Barrow Full Time Equivalent £90,634;

2 - Post previously titled Director Resources (Acting) (Apr 19- Oct 19);

3 - Remuneration reflects flexible retirement during the year;

4- Post previously titled Head of Finance & ISS (Apr 19 - Oct 19);

5 - From August 19 to Jan 20 Post holder undertook duties associated with the post of Head of Education.

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

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

Remuneration of Other Employees by Pay Bands

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

Total Employees 2018/19	Remuneration Band	Non- Teaching Employees 2019/20	Teaching Employees 2019/20	Total Employees 2019/20
58	£50,000-£54,999	16	66	82
29	£55,000-£59,999	9	39	48
14	£60,000-£64,999	11	22	33
10	£65,000-£69,999	2	7	9
1	£70,000-£74,999	2	2	4
4	£75,000-£79,999	1	1	2
2	£80,000-£84,999	3	2	5
1	£85,000-£89,999	1	0	1
1	£95,000-£99,999	0	1	1
2	£100,000-£104,999	2	0	2
1	£110,000-£114,999	0	0	0
0	£120,000-£124,999	1	0	1
123	Total	48	140	188

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 Number Employees 2018/19	Total Cost 2018/19 £000	Remuneration Band	Total Number Employees 2019/20	Total Cost 2019/20
0	0	£0 - £19,999	16	185
0	0	£20,000 - £39,999	4	127
24	765	£40,000 +	3	241
24	765	Total	23	553

Trade Union Facility Time

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

https://www.midlothian.gov.uk/info/691/performance_and_spending/568/trade_union_facility_time

For the reporting year 2019/20, 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%	11
51% - 99%	3
100%	0

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	£202,686
Total Pay Bill	£142,912,744
Percentage total	0.14%

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

Derek Milligan

Leader of the Council

Date:

Dr Grace Vickers

Chief Executive

Date:

Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of Midlothian Council ("the Council") and its group for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise group and council Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Group Cash-Flow Statement, the council-only Housing Revenue Account Income and Expenditure Statement, the Housing Revenue Account, Notes to the Housing Revenue Account, the Council Tax Income Account, and the Non-domestic Rate Account, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of the Council and its group as at 31 March 2020 and of the income and expenditure of the Council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Emphasis of matter – Disclosure in relation to the effects of COVID-19

We draw attention to Note 1 of the financial statements, which describes the economic consequences the Council is facing as a result of COVID-19 which is impacting financial and operation position and performance during 2020/21 and beyond.

Our opinion is not modified in respect of these matters.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

- the Chief Officer – Corporate Solutions has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting 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. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

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 our auditor's report.

Other information in the annual accounts

The Chief Officer – Corporate Solutions is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Report on other requirements**Opinions on matters prescribed by the Accounts Commission**

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

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

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of our report

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

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

Ernst & Young LLP

Atria One

144 Morrison Street

Edinburgh

EH3 8EX

Date:

Principal Financial Statements

The Annual Accounts summarise the Council's transactions for the year, its year-end position at 31 March 2020 and its cash flows. The Annual Accounts are prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* (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. The Council raises 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 Council Tax) and other 'Unusable Reserves'. The statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to council tax and rents for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and the Housing Revenue Account Balance Movements (HRA) in the year following these 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 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 authority 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 authority 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 change in cash and cash equivalents 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 that are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Group and Council Comprehensive Income and Expenditure Statement

2018/19				Service	2019/20				Notes
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		£000	£000	£000	£000	
2,033	(105)	1,928	1,928	Management	2,155	(53)	2,102	2,102	
16,876	(634)	16,242	16,242	Children's Services	16,558	(580)	15,978	15,978	EFA
7,627	(4,569)	3,058	3,058	Communities and Economy	7,075	(6,489)	586	586	EFA
102,844	(7,789)	95,055	95,055	Education	113,461	(12,631)	100,830	100,830	EFA
103,548	(61,263)	42,285	42,285	Adult Social Care	110,462	(64,606)	45,856	45,856	EFA
29,777	(24,955)	4,822	4,822	Customer and Housing Services	28,522	(24,064)	4,458	4,458	EFA
26,777	(4,896)	21,881	21,881	Commercial Services	33,036	(11,532)	21,502	21,502	EFA
21,287	(902)	20,385	20,385	Finance and Integrated Service Support	12,317	(1,502)	10,815	10,815	EFA
35,165	(16,561)	18,604	18,604	Properties and Facilities Management	37,490	(19,948)	17,542	17,542	EFA
(51,607)	(28,802)	(80,409)	(80,409)	Housing Revenue Account	5,411	(29,865)	(24,454)	(24,454)	EFA
523	0	523	523	Lothian Valuation Joint Board	549	0	549	549	EFA
(548)	0	(548)	(548)	Central Costs	(346)	0	(346)	(346)	EFA
1,323	0	1,323	1,326	Non-Distributable Costs	1,550	0	1,550	1,551	EFA
295,625	(150,476)	145,149	145,152	Cost of Services	368,240	(171,270)	196,968	196,968	
	0		(1,435)	Share of operating results of associates			0	(286)	
	1,463		1,463	Other Operating (Income) or Expenditure			724	724	9
	16,010		16,010	Financing and Investment Income and Expenditure			17,113	17,113	10
	(222,170)		(222,170)	Taxation and Non-Specific Grant Income			(241,716)	(241,716)	11
	(59,548)		(60,980)	(Surplus) or Deficit on Provision of Services			(26,911)	(27,197)	12
	(44,084)		(44,084)	(Surplus) or Deficit on revaluation of Property, Plant and Equipment assets			(44,276)	(44,276)	
	17,287		17,287	Re-measurement of the net defined benefit liability/(asset)			(42,897)	(42,897)	
	(184)		(68)	Other (Gains) / Losses			897	593	
	(26,981)		(26,865)	Other Comprehensive (Income) and Expenditure			(86,276)	(86,580)	
	(86,529)		(87,845)	Total Comprehensive (Income) and Expenditure			(113,187)	(113,776)	

Group and Council Movement in Reserves Statement

	General Fund Reserve	HRA Balance	Capital Fund	Repairs and Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2019	(8,637)	(39,084)	(20,169)	(2,957)	(70,847)	(304,539)	(375,386)	(1,380)	(376,766)
Movement between Lothian Valuation Joint Board 2017/18 Unaudited and Audited Accounts	0	0	0	0	0	0	0	105	105
Revised Balance at 31 March 2019	(8,637)	(39,083)	(20,169)	(2,957)	(70,847)	(304,539)	(375,386)	(1,275)	(376,661)
Total Comprehensive Expenditure and Income	(13,802)	(17,882)	0	0	(31,684)	(81,503)	(113,187)	(589)	(113,776)
Adjustments between accounting basis and funding basis under regulations (Note 7)	8,298	12,571	(5,195)	0	15,674	(15,673)	1	0	1
Transfers to/(from) other statutory reserves	713	0	0	(713)	0	0	0	0	0
Increase/(Decrease) in year	(4,791)	(5,311)	(5,195)	(713)	(16,010)	(97,176)	(113,186)	(589)	(113,775)
Balance at 31 March 2020	(13,428)	(44,395)	(25,364)	(3,670)	(86,857)	(401,715)	(488,571)	(1,864)	(490,435)

	General Fund Reserve	HRA Balance	Capital Fund	Repairs and Renewals Fund	Total Usable Reserves	Total Unusable Reserves	Total Council Reserves	Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures	Total Group Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018	(10,777)	(33,863)	(19,462)	(2,889)	(66,991)	(221,861)	(288,852)	17	(288,835)
Adjustments relating to revalued assets funded from developer contributions	0	0	(249)	0	(249)	249	0	0	0
Movement between Lothian Valuation Joint Board 2017/18 Unaudited and Audited Accounts	0	0	0	0	0	0	0	(81)	(81)
Revised Balance at 31 March 2018	(10,777)	(33,863)	(19,711)	(2,889)	(67,240)	(221,611)	(288,852)	(64)	(288,916)
Total Comprehensive Expenditure and Income	14,685	(74,235)	0	0	(59,550)	(26,978)	(86,528)	(1,317)	(87,845)
Adjustments between accounting basis and funding basis under regulations (Note 7)	(12,612)	69,014	(457)	0	55,945	(55,949)	(4)	0	(4)
Transfers to/(from) other statutory reserves	68	0	0	(68)	0	0	0	0	0
Increase/(Decrease) in year	2,140	(5,221)	(457)	(68)	(3,605)	(82,927)	(86,532)	(1,317)	(87,849)
Balance at 31 March 2019	(8,637)	(39,084)	(20,169)	(2,957)	(70,845)	(304,539)	(375,384)	(1,381)	(376,765)

Group and Council Balance Sheet

31 March 2019			31 March 2020			Notes
Midlothian Council	Group		Midlothian Council	Group		
£000	£000		£000	£000		
779,364	779,364	Property, Plant and Equipment	891,621	891,623		13
924	924	Intangible Assets	619	619		15
86	86	Heritage Assets	82	82		14
8,424	8,424	Long-term Investments	7,363	7,363		17
0	1,335	Investments share of net assets of associates	0	1,820		
2,997	2,957	Long-term Debtors	3,713	3,669		20
791,795	793,090	Long-term Assets	903,398	905,176		
65,420	65,420	Short-term Investments	85,370	85,370		17
5,543	5,543	Assets held for Sale	1,371	1,370		16
868	868	Inventories	744	744		19
18,931	18,982	Short-term Debtors	22,107	22,157		21
10,680	10,680	Cash and Cash Equivalents	24,682	24,682		22
101,442	101,493	Current Assets	134,274	134,323		
20,507	20,507	Short-term Borrowing	11,441	11,441		17
38,751	38,716	Short-term Creditors	45,031	44,994		23
760	760	Provisions	836	836		24
31,041	31,041	Grants Receipts in Advance	33,927	33,927		29
91,059	91,024	Current Liabilities	91,235	91,198		
219,605	219,605	Long-term Borrowing	260,427	260,427		17
207,190	207,190	Other Long-term Liabilities	197,437	197,437		25
426,795	426,795	Long-term Liabilities	457,864	457,864		
375,383	376,764	Net Assets	488,573	490,437		
70,844	72,911	Usable Reserves	86,857	89,293		26
304,539	303,853	Unusable Reserves	401,716	401,144		27
375,383	376,764	Total Reserves	488,573	490,437		

The unaudited accounts were authorised for issue on 30 June 2020 and the audited accounts authorised for issue on the 12 October 2020.

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 2020, and its income and expenditure for the year ended 31 March 2020.

Gary Fairley (FCCA)

Chief Officer Corporate Solutions

Date:

Group and Council Cash Flow Statement

2018/19			2019/20	
Midlothian Council £000	Group £000		Midlothian Council £000	Group £000
59,548	60,980	Net (Surplus) or Deficit on the Provision of Services	26,911	27,197
		Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements		
30,139	30,139	Depreciation	33,071	33,071
(74,219)	(74,219)	Impairment and downward revaluations	(18,660)	(18,660)
232	232	Amortisation	316	316
(339)	(337)	(Increase)/decrease in debtors	(1,568)	(1,565)
(981)	(980)	Increase/(decrease) in creditors	(1,573)	(1,575)
13	13	(Increase)/decrease in inventories	125	125
21,559	21,559	Movement in pension liability	16,257	16,257
1,944	1,944	Carrying amount of non-current assets sold or derecognised	4,632	4,632
(505)	(1,940)	Other non-cash items charged to the net surplus or deficit on the provision of services	69	(217)
(22,157)	(23,589)		32,669	32,384
		Adjust for Items included in the Net Surplus or Deficit that are Investing and Financing Activities		
64,985	64,985	Proceeds from short-term and long-term investments	64,985	64,985
(482)	(482)	Sale of property, plant and equipment, investment property and intangible assets	(3,914)	(3,914)
(24,561)	(24,561)	Any other items for which the cash effects are investing or financing cash flows	(40,295)	(40,295)
39,943	39,943		20,776	20,776
77,334	77,334	Net Cash Flow from Operating Activities	80,356	80,356
		Investing Activities		
(34,575)	(34,575)	Purchase of property, plant and equipment, investment property and intangible assets	(56,045)	(56,045)
(64,985)	(64,985)	Purchase of short-term and long-term investments	(84,985)	(84,985)
(1,950)	(1,950)	Other payments for investing activities	(551)	(551)
1,302	1,302	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	3,914	3,914
30,472	30,472	Other receipts from investing activities	42,670	42,670
(69,735)	(69,735)		(94,997)	(94,997)
		Financing Activities		
92,980	92,980	Cash receipts of short- and long-term borrowing	76,500	76,500
(2,052)	(2,052)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance-sheet PFI contracts	(3,156)	(3,156)
(96,732)	(96,732)	Repayments of short- and long-term borrowing	(44,701)	(44,701)
(5,805)	(5,805)		28,643	28,643
1,794	1,794	Net (Increase)/Decrease in Cash and Cash Equivalents	14,002	14,002
8,886	8,886	Cash and Cash Equivalents at 1 April	10,680	10,680
10,680	10,680	Cash and Cash Equivalents at 31 March	24,682	24,682

The cash flows for operating activities include the following items:

£000	£000	Cash Flow Statement: Interest Paid and Received	£000	£000
40	40	Interest Received	403	403
(15,175)	(15,175)	Interest Paid	(16,192)	(16,192)
438	438	Dividends Received	0	0

Expenditure and Funding Analysis

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

2018/19			Service	2019/20		
Net expenditure chargeable to the General Fund and HRA balances	Adjustments (note 6)	Net expenditure in the CIES (note 12)		Net expenditure chargeable to the General Fund and HRA balances	Adjustments (note 6)	Net expenditure in the CIES (note 12)
£000	£000	£000		£000	£000	£000
1,837	91	1,928	Management	1,962	140	2,102
15,686	556	16,242	Children’s Services	15,139	839	15,978
2,666	392	3,058	Communities and Economy	1,841	(1,255)	586
77,647	17,408	95,055	Education	83,674	17,156	100,830
40,355	1,930	42,285	Adult Social Care	43,186	2,670	45,856
4,548	274	4,822	Customer and Housing Services	3,911	547	4,458
16,646	5,235	21,881	Commercial Services	12,214	9,288	21,502
11,036	9,349	20,385	Finance and Integrated Service Support	9,713	1,102	10,815
14,668	3,936	18,604	Properties and Facilities Management	14,108	3,434	17,542
(15,729)	(64,680)	(80,409)	Housing Revenue Account	(15,937)	(8,517)	(24,454)
523	0	523	Lothian Valuation Joint Board	549	0	549
(652)	104	(548)	Central Costs	(937)	592	(345)
1,358	(35)	1,323	Non-Distributable Costs	1,532	18	1,550
170,589	(25,440)	145,149	Net Cost of Services	170,956	26,014	196,969
10,497	(9,034)	1,463	Other Income and Expenditure	11,881	(11,157)	724
13,448	2,562	16,010	Financing and Investment	13,972	3,141	17,113
(197,613)	(24,557)	(222,170)	Income and Expenditure	(206,910)	(34,806)	(241,716)
(3,079)	(56,469)	(59,548)	Taxation and non-specific grant income	(10,101)	(16,808)	(26,910)
(44,640)			Opening General Fund and HRA Balance	(47,720)		
(3,079)			Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in year	(10,102)		
(47,719)			Closing General Fund and HRA Balance at 31 March*	(57,822)		

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

Notes to the Financial Statements

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

1. Statement of Accounting Policies

General Principles

The Annual Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare Annual 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 2019/20*, 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 annual accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The Council's financial statements for 2019/20 have been prepared on a going concern basis. The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. In accordance with the CIPFA Code of Local Government Accounting (2019/20), the Council is required to prepare its financial statements on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. The accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

Midlothian Council approved an update to the Medium Term Financial Plan for the period 2020/21 to 2023/24 at the Council meeting of 11 February 2020. In order to maintain a balanced budget for the period of the MTFP, the Council was required to deliver total budget savings of £18.8 million over this period including £6.472 million in 2020/21, which were fully identified in the MTFP.

The council continues to face unprecedented challenges, including the impact of Covid-19, in delivering essential services whilst resources are constrained. Over recent months substantial work has been undertaken to identify the estimated additional costs of Covid-19. While there remains uncertainty around Covid-19 implications going forward, an update to Council on 25 August 2020 forecast an additional net cost resulting of £2.281 million. This comprises £1.385 million net COVID-19 response costs, a £4.342 million loss in income offset by additional Government funding of £3.446 million. The net financial pressure faced in 2020/21 also includes the non-delivery of some planned savings. The latest projections show the Council has a budget gap of £3.5 million in 2021/22 rising to £9.7 million by 2022/23.

In addition to known costs during the lockdown period, there is a high risk that further significant costs will continue to be incurred during financial year 2020/21. The identification of any emerging risks will inform discussions with the Scottish Government over funding. Officers will review and develop plans to allow services to be delivered in line with Government recommendations. The introduction of safety measures, such as social distancing, is likely to result in further costs. Areas where further expenditure could emerge include school transportation, social care provision and homelessness.

The council's minimum uncommitted general fund balance is £3.3 million. The uncommitted general fund balance at 31 March 2020 is £4.049 million. The most recent budget monitoring update for 2020/21 reported to Council in August forecasts an overspend of £1.271 million which without further action would result in an uncommitted general fund balance of £3.442 million at 31 March 2021. This provides very limited opportunity to use some of the balance to support further net costs associated with the pandemic in 2020/21. Should additional cost pressures exceed the remaining general reserve balance, the Council will consider a range of options to balance the budget, as outlined below.

Midlothian Council has a high level of balances of cash short term investments, totalling £85.370 million at 31 March and £84.985 million at 31 August. Normally when investments mature they are reinvested for periods up to a year. During the pandemic maturing investments have been retained in highly liquid instruments, such as the overnight bank account or money market funds, to ensure that the funds are available as required. The council's cash flow is monitored daily by management and the Council does not forecast any cash flow shortage through to 30 October 2021. Following the impact of Covid-19 the Council's cash flow position was supported by the accelerated payment of Scottish Government grant in April, May and June.

The Council is working with the Scottish Government and the Convention of Scottish Local Authorities (COSLA) to monitor the level of additional cost pressures and reduced income levels arising from COVID-19. The Council continues to regularly monitor its financial position and provide full financial updates to the Council as appropriate, including options on addressing any new budget gaps and spending pressures. This may include potential national flexibilities, reprioritisation of earmarked reserves and balances, restrictions on expenditure, including recruitment, revisions to service delivery or service standards and identification of additional saving measures. Management is continuing to liaise with Scottish Government and COSLA on ensuring sustainable funding going forward. The Scottish Government has confirmed that some uncommitted ring-fenced grants, such as early learning and childcare, can be utilised to support the Covid-19 response.

a) Accruals of Income and Expenditure

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

b) Cash and Cash Equivalents

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

In the Balance Sheet and 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.

c) Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

d) Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards

the reduction in its overall borrowing requirement by way of loans fund principal charges. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the principal repayment when determining the movement in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

e) Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

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

Post-Employment Benefits

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

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

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme and no liability for future payments of benefits is recognised in the Balance Sheet. The

education service revenue account in the Comprehensive Income and Expenditure Statement is charged with the employer's contribution payable to teachers' pensions in the year.

The Local Government Pension Scheme

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

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

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

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

Remeasurements comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined liability (asset) – charged to the pensions reserve as other comprehensive income and expenditure;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as other comprehensive income and expenditure;

- Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

f) Events after the Balance Sheet Date

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

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

Events taking place after the date of authorisation for issue are not reflected in the financial statements.

g) Financial Instruments

Financial Liabilities

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

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

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

Financial Assets

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

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

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

Financial Assets Measured at Amortised Cost

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

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

Expected Credit Loss Model

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

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

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

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

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

Financial assets that are measured at FVOCI are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Fair value measurements of financial assets

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

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

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

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

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

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

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

h) Government Grants and Contributions

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

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

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

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

Where capital grants are credited to the CIES, 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.

i) 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 financial statements.

j) 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 initially measured 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 CIES. 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 CIES.

k) 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.

l) 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.

m) 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.

n) Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

- Council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH). Gross valuations are reduced by applying the discount factor which is designed to reflect that houses are only available for social use. Any new build housing and newly purchased houses are valued at historic cost;

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

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

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

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

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

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

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

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

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

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 valuer;
- Vehicles, plant and equipment - straight-line allocation over the useful life of the assets in Balance Sheet, as advised by a suitably qualified officer;
- Infrastructure – straight-line allocation.

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

o) Public Private Partnership (PPP) and Similar Contracts

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

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the CIES;
- Finance Cost – an interest charge on the outstanding Balance Sheet liability debited to the Financing and Investment Income and Expenditure line in the CIES, the interest charges are as follows:
 - Dalkeith Schools 9.69%;
 - Midlothian Primary Schools 7.29%;
 - Newbattle Community Campus 5.06%;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- Liability repayment – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write-downs is calculated using the same principles as for a finance lease;

- Service charge and lifecycle component 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.

p) Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

q) 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.

r) Revenue Expenditure funded from Capital Under Statute (Refcus)

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

s) VAT

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

t) Fair Value Measurement of Non-financial Assets

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

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

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

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

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

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

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

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

2. Accounting Standards Issued, Not Yet Adopted

The code requires that 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 2020/21 code.

- Annual Improvements to IFRS Standards 2014-2016 Cycle;
- Amendments to IAS 40 Investment Property: Transfers of Investment Property;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IFRIC 23 Uncertainty Over Income Tax Treatments;
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation;
- IFRS 16 Leases - As a result of the current Covid-19 response CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2021;
- IAS 28 Investments and Associates with Joint Ventures: Long-term interests in associates and Joint Ventures;
- IAS 19 Employee Benefits: Plan amendment, curtailment or settlement.

The changes will be effective from the 1st April 2020 and none are expected to have a material impact on the Council's 2019/20 or 2020/21 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. The critical judgements made in the annual accounts are:

- There is a high degree of uncertainty about future levels of funding for Local Government, however the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close the facilities and to reduce levels of service provision;
- Accounting for Public-Private Partnerships (PPP) and similar contracts. The Council is deemed to control the services provided under the agreement for the provision of educational establishments in accordance with *IFRC12*. The Council controls the services provided under the scheme and ownership of the schools will pass to the Council at the end of the contract. The schools are therefore recognised on the Council's Balance Sheet;

4. Future Assumptions and Estimation Uncertainties

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot

be determined with certainty actual results could be materially different from the assumptions and estimates.

The items in the Councils Balance Sheet as at 31 March 2020 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Property, Plant and Equipment

Uncertainties

Assets are carried in the balance sheet using a range of measurement bases, in line with IFRS 13. A number of assumptions are used in arriving at the valuation of assets which are determined by Royal Institute of Chartered Surveyors (RICS) qualified valuers employed within the Council's Asset Management Team.

Assets are depreciated over useful lives that are dependent on a number of assumptions including the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets.

Consideration has been given to the effects of the Covid-19 Pandemic on the council's property assets and their associated values. In order to take an informed view and to gauge the position of the wider valuation profession on this matter, consultation has taken place with colleagues from a wide range of Scottish local authorities, the District Valuers Office, the Association of Chief Estate Surveyors (ACES) and the Royal Institute of Chartered Surveyors (RICS).

The Covid-19 outbreak is a global pandemic that has affected most of, if not all parts of the global community. It is a fast-changing, fluid situation with government recommendations and requirements being reviewed and updated on an ongoing basis. Many business sectors have been forced to close as part of government restrictions to reduce the spread of the virus, the full effects of which on the respective property markets and the wider economy are yet to be fully understood, assessed or quantified. Currently, there is insufficient empirical data available to make an informed and evidence-based decision on whether or not there has been a significant impact on the current asset valuations. Occupancy levels, rental figures, land values and BCIS costs and indices will all require to be monitored and reviewed going forward to assess the full impact of the Covid-19 outbreak on asset valuations. In light of the foregoing, it is considered appropriate to include the following RICS approved "Material Valuation Uncertainty" statement.

Material Valuation Uncertainty Statement

"The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a Global Pandemic on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries. Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations, not including housing, are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuations than would normally be the case.

Given the unknown future impact that Covid-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review."

Effect if Actual Results Differ from Assumptions

The net book value of all council property, plant and equipment subject to revaluation through the 5 year revaluation cycle is £728.728 million. Assets revalued in 2019/20 totalled £191.995 million before revaluation. The impact of a 5% change in valuation of these would be £12.620 million, either resulting in an increase or decrease in the Council's revaluation reserve or an additional impairment charge. There would be no impact on the Council's general fund.

If the useful life of the asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £5.034m for every year that useful lives had to be reduced.

Debtors

Uncertainties

Management reviewed all debtor's balances at 31 March and determined that an allowance for doubtful debts of £22.109 million was appropriate. However, it is recognised that in the current economic climate and taking into account the impact of Covid-19 there is increased uncertainty around the recoverability of debtor balances. Management has continued to review all material outstanding balances at the yearend subsequent to 31 March, and has not determined any further allowance is required based on recovery to date.

Effect if Actual Results Differ from Assumptions

If collection rates were to deteriorate a 3% increase in each of the provisions would require an increase of £0.666 million.

Pension Liability

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which earnings are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson LLP are engaged to provide the Council with expert advice about the assumptions applied.

The value of the Council's share of assets in the Lothian Pension Fund is also subject to estimation uncertainty, which has increased in 2019/20 as a result of the outbreak of Covid-19. As a result, Lothian Pension Fund has disclosed a material uncertainty around the valuation of its property assets held at 31 March 2020 (approximately 7% of the total fund assets). This uncertainty means that less certainty, and a higher degree of caution, is attached to the valuation of the Fund's investment property assets than would normally be the case and that the valuation of these assets is kept under more frequent review. The inclusion of the material valuation uncertainty does not mean that the valuation cannot be relied on, but rather to be clear and transparent with all parties that less certainty is attached to the stated valuations.

Effect if Actual Results Differ from Assumptions

The effects of the net pension liability of changes in individual assumptions can be measured. **Note 36** to the Financial Statements includes a sensitivity analysis showing the impact of varying certain assumptions. In addition, it is estimated that a one-year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%.

5. Events after the Reporting Period

As the balance sheet date of 31 March 2020 was at the start of the Covid-19 lockdown period, the emergence of Covid-19 is not a post balance sheet event in itself. However, the potential impact from developments after the 31 March 2020 year-end have been considered accordingly for disclosure in the financial statements. From our assessment of these developments we have not identified any financial impact on the Council's 31 March 2020 financial position, and as such these are considered non-adjusting events.

There have been numerous developments in relation to the pandemic subsequent to 31 March 2020, these include, but are not limited to, suspension of some council services, closure of some buildings, consolidation of childcare provision for key workers into school hubs, expansion and continuation of free school meals and other food support, the majority of office based employees working from home, redeployment of employees to continue to support statutory service delivery that must continue to be delivered and payment of grants and support to those most in need in the community.

Expenditure incurred in response to the pandemic in 2019/20 is included in the accounts for the financial year. This net expenditure totalled £0.315 million and incorporated additional costs such as increased crisis care grants, early learning and childcare placements for key worker children, personal protective equipment for staff, overtime payments, commercial rent arrears and lost income. All other events after 31 March 2020, such as notification of grant funding, introduction of business and self-employed grants and changes to service delivery, all apply to the financial year 2020/21 and therefore no adjustments are required. Since 31 March 2020 the council has received confirmation of funding from the Scottish Government totalling £20.094 million all relating to the financial year 2020/21. This funding includes £13.678 million for small business grants, which is paid directly to businesses to support them during this time, £1.190 million to support communities and £3.446 million as a share of the Barnett Consequentials for local government.

With regard to financial instruments, the fair value was assessed in line with the requirements of IFRS 9 Financial Instruments and Expected Credit Loss. The timing of the valuation means that it included relevant conditions and assumptions arising from the pandemic. The Council's approach to investments means that the council has minimal exposure to default risk. The priority is to secure the underlying value of the investment, therefore there should be no expected credit loss against the council's financial instruments. Recovery of financial assets post yearend has not indicated any further impairment requirement at 31 March 2020.

The basis for the valuation of property, plant and equipment at 31 March has been outlined in note 13 to the financial statements. Management has continued to assess the effects of the Covid-19 Pandemic on the council's property assets and their associated valuation subsequent to the financial yearend. In order to take an informed view and to gauge the position of the wider valuation profession on this matter, consultation has taken place with colleagues from a wide range of Scottish local authorities, the District Valuers Office, the Association of Chief Estate Surveyors (ACES) and the Royal

Institute of Chartered Surveyors (RICS). Many business sectors have been forced to close as part of government restrictions to reduce the spread of the virus, the full effects of which on the respective property markets and the wider economy are yet to be fully understood, assessed or quantified. In line with the disclosures made in note 13 there remains significant uncertainty around the impact of these effects on the valuation of assets. The key drivers behind the valuation of assets, including occupancy levels, rental figures, land values and BCIS costs and indices will all continue to be monitored by management going forward throughout the year to assess the full impact of the Covid-19 outbreak on asset valuations, and when more certainty is available management will consider the need for formal asset revaluations in advance of the next financial statements yearend.

The Council continues to monitor and assess the financial impact of the Covid-19 response for 2020/21, including consideration of additional costs, lost income and required savings. The Council's current assessment is outlined in more detail in the basis of preparation disclosures in note 1 to the financial statements (basis of preparation).

6. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis				2019/20
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes (1)	Net change for pension adjustments (2)	Other Adjustments (3)	Total Adjustments
Service	£000	£000	£000	£000
Management	0	119	21	140
Children's Services	126	638	75	839
Communities and Economy	26	453	(1,733)	(1,254)
Education	8,208	6,668	2,280	17,156
Adult Social Care	679	1,615	377	2,671
Customer and Housing Services	405	0	141	546
Commercial Services	8,113	1,198	(24)	9,287
Finance and Integrated Service Support	1,300	179	(377)	1,102
Properties and Facilities Management	999	1,701	734	3,434
Housing Revenue Account	(9,063)	546	0	(8,517)
Lothian Valuation Joint Board	0	0	0	0
Central Services	592	0	0	592
Non-Distributable Costs	0	0	18	18
Net Cost of Services	11,385	13,117	1,512	26,014
Other income and expenditure from the Expenditure and Funding Analysis	(45,954)	3,141	(9)	(42,822)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	(34,569)	16,258	1,504	(16,808)

Adjustments between Funding and Accounting Basis				2018/19
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes (1)	Net change for pension adjustments (2)	Other Adjustments (3)	Total Adjustments
Service	£000	£000	£000	£000
Management	0	92	(1)	91
Children's Services	92	496	(32)	556
Communities and Economy	46	352	(6)	392
Education	10,974	5,184	1,249	17,408
Adult Social Care	645	1,255	30	1,930
Customer and Housing Services	309	0	(36)	273
Commercial Services	5,387	932	(1,084)	5,235
Finance and Integrated Service Support	935	8,938	(524)	9,349
Properties and Facilities Management	2,870	1,322	(255)	3,936
Housing Revenue Account	(65,105)	425	0	(64,681)
Lothian Valuation Joint Board	0	0	0	0
Central Services	104	0	0	104
Non-Distributable Costs	0	0	(35)	(35)
Net Cost of Services	(43,743)	18,996	(695)	(25,442)
Other income and expenditure from the Expenditure and Funding Analysis	(33,582)	2,562	(9)	(31,029)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	(77,325)	21,558	(704)	(56,471)

Notes

1) Adjustments for Capital Purposes

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

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

2) Net Change for the Pensions Adjustments

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

- **For services** – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs;

- **For financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

3) Other Adjustments

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

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

7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

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

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

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

	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Total Useable Reserves £000	Total Unusable Reserves £000
2018/19					
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	(21,035)	(524)	0	(21,559)	21,559
Financial Instruments	9	0	0	9	(9)
Short-term Accumulated Absences	694	0	0	694	(694)
Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure	(21,257)	65,105	0	43,848	(43,848)
Total Adjustments to Revenue Resources	(41,589)	64,581	0	22,992	(22,992)
Adjustments between Revenue and Capital Resources					
Net gain or loss on sale of non-current assets	(1,440)	(23)	0	(1,463)	1,463
Statutory provision for the repayment of debt	5,965	4,456	0	10,421	(10,421)
Net revenue expenditure financed from capital under statute (REFFCUS)	(164)	0	0	(164)	164
Capital Financed from Current Revenue (CFCR)	60	0	0	60	(64)
Total Adjustments between Revenue and Capital Resources	4,421	4,433	0	8,854	(8,858)
Adjustments to Capital Resources					
Application of capital grants to finance capital expenditure	24,557	0	0	24,557	(24,557)
Adjustments involving the capital fund	0	0	(457)	(457)	457
Total Adjustments to Capital Resources	24,557	0	(457)	24,100	(24,100)
Total Adjustments	(12,612)	69,014	(457)	55,945	(55,950)

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 2020/21.

	Balance at 31/03/2018 £000	Transfers out 2018/19 £000	Transfers in 2018/19 £000	Balance at 31/03/2019 £000	Transfers out 2019/20 £000	Transfers in 2019/20 £000	Balance at 31/03/2020 £000
Scheme of Devolved Budget Management carry forwards	(3,244)	3,244	(3,220)	(3,220)	3,220	(8,580)	(8,580)
Business Transformation Programme	(2,015)	1,571	(306)	(750)	291	0	(459)
Delegated to schools under the Devolved School Management Policy	(1,181)	1,181	(364)	(364)	364	(142)	(142)
Training Budget	0	0	(199)	(199)	0	0	(199)
Total Earmarked Reserves	(6,440)	5,996	(4,089)	(4,533)	3,875	(8,722)	(9,380)
Non-Earmarked Reserves	(4,337)	233	0	(4,104)	56	0	(4,048)
Total General Fund Balance	(10,777)	6,229	(4,089)	(8,637)	3,931	(8,722)	(13,428)

9. Other Operating Income and Expenditure

2018/19 £000	Other Operating Income and Expenditure	2019/20 £000
1,463	(Gains)/Losses on disposal of non-current assets	724
1,463	Total	724

10. Financing and Investment Income and Expenditure

2018/19 £000	Financing and Investment Income and Expenditure	2019/20 £000
15,138	Interest payable and similar charges	15,859
2,562	Net interest on the net defined benefit liability (asset)	3,141
-1,690	Interest received and similar income	-1,887
16,010	Total	17,113

11. Taxation and Non-specific Grant Income

2018/19 £000	Credited to Taxation and Non-Specific Grant Income	2019/20 £000
42,926	Council Tax Income	46,380
27,955	Non-domestic Rates Income	31,520
126,732	Non-specific Government Grants	129,010
24,557	Capital grants and contributions	34,806
222,170	Total	241,716

12. Group and Council Expenditure and Income Analysed by Nature

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

2018/19 £000		2019/20 £000
	Expenditure	
154,144	Employee Expenses	168,255
188,972	Other Service Expenses	189,042
(43,848)	Depreciation, amortisation and impairment	14,532
14,471	Interest payments	15,411
1,463	Gain/(Loss) on the disposal of non-current assets	724
(1,430)	Share of operating results of associates	(286)
313,771	Total Expenditure	387,678
	Income	
(69,568)	Fees, Charges and Other Service Income	(81,650)
(1,023)	Interest and Investment Income	(889)
(42,926)	Income from council tax	(46,380)
(261,233)	Government Grants and Contributions	(285,953)
(374,751)	Total Income	(414,872)
(60,980)	(Surplus) or Deficit on the Provision of Services	(27,194)

13. Property, Plant and Equipment

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 2019/20 valuations were undertaken for Care homes, Recreational ground, Industrial Land, Land and Secondary Schools. The majority of the asset valuations were based on a depreciated replacement cost (DRC) basis and resulted in a net upwards revaluation of assets of £62.597 million. The revaluations we have received to support the values included in the 2019-20 financial statements, with the exception of those for the housing assets, contain a 'material valuation uncertainty' declaration, due to the current Covid-19 pandemic. This does not mean the valuation cannot be relied upon, but to be clear and transparent under RICS standards, it is protocol to include the uncertainty clause within all reports for 31 March valuations during the present crisis. More information is provided on this uncertainty in note 4 to the financial statements "major sources of estimation uncertainty".

In addition to formal valuations of property, plant and equipment on a rolling basis over a five year period, the Council assesses all assets to ensure there are no material changes that should drive an earlier valuation, to ensure that, in line with the CIPFA code, assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. The Council's valuer has

determined in his professional opinion that, at 31 March 2020, there has been no material change in the assets not subject to revaluation in the year that would require an earlier revaluation. The Council has continued to assess the valuation of its asset base subsequent to the financial year-end as summarised in note 5 to these financial statements.

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

Depreciation

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

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

Capital Commitments

As at 31 March 2020, the Council was contractually committed to capital works which amounted to £15.862 million (31 March 2019 £12.958 million).

The value of work completed at 31 March 2020 has been established using a stage of completion methodology based on Contract Administrator's Certificates obtained at year-end. The main capital contractual commitments in place at 31 March 2020 are as follows:

	Original Contractual Commitment	Outstanding at 31 March 2020
Capital Commitments		
General Services Programme:		
New Danderhall Primary School	15,363	8,467
Refurbishment & Extension of Existing Sacred Heart Primary School	3,205	1,206
Housing Revenue Account Programme		
Phase 3 New Social Housing: Site 110, Clerk Street, Loanhead	4,292	2,405
Phase 3 New Social Housing: Site 39, Crichton Avenue, Pathhead	1,471	1,471
Total Contractual Commitment	24,331	13,549

Movements on Balances

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

Movements in 2018/19	Council Dwellings	Buildings	Land	Vehicles, Plant and Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2018	307,504	322,080	11,504	31,304	65,555	7,979	9,621	6,468	762,015
Additions	9,103	4,245	0	2,777	5,301	130	39,889	0	61,445
De-recognition - Disposals	(304)	(11,269)	(358)	(1,127)	0	(105)	0	(763)	(13,926)
Reclassification of Assets	1,023	36,456	(2,687)	(66)	0	0	(33,055)	(2,380)	(709)
Revaluation increases/(decreases) recognised in the CIES	34,350	(127)	1,396	0	0	0	0	(143)	35,476
Revaluation increases/(decreases) recognised in the Revaluation Reserve	28,260	2,060	2,152	0	0	68	0	(978)	31,562
Balance At 31 March 2019	379,936	353,445	12,007	32,888	70,856	8,072	16,455	2,204	875,863
Accumulated Depreciation and Impairment									
Balance At 1 April 2018	(40,129)	(28,852)	0	(20,911)	(37,908)	(110)	0	(92)	(128,002)
Depreciation Charge	(7,511)	(16,255)	0	(2,905)	(3,285)	(135)	0	(46)	(30,137)
De-recognition - Disposals	258	10,862	0	1,018	0	16	0	0	12,154
Reclassification of Assets	(181)	128	0	53	0	0	0	0	0
Depreciation written out to the CIES	38,266	475	0	0	0	0	0	0	38,741
Depreciation written out to the Revaluation Reserve	7,105	3,598	0	0	0	42	0	0	10,745
Balance At 31 March 2019	(2,192)	(30,044)	0	(22,745)	(41,193)	(187)	0	(138)	(96,499)
Net Book Value at 31 March 2019	377,744	323,401	12,007	10,143	29,663	7,885	16,455	2,066	779,364
Net Book Value at 31 March 2018	267,375	293,228	11,504	10,393	27,647	7,869	9,621	6,376	634,013

14. Heritage Assets

The Council's chain of office is the main heritage asset and has been included in the Balance Sheet at reinstatement cost, obtained from the Council's insurer.

2018/19		2019/20
£000	Heritage Assets	£000
76	Balance outstanding at 1 April	86
(2)	Depreciation	(4)
12	Revaluations and Restatements	0
86	Balance outstanding at 31 March	82

15. Intangible Assets

The Council accounts for purchased 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 Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. The Council is required to purchase allowances either prospectively or retrospectively, and surrender them on the basis of emissions.

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

2018/19		2019/20
£000	Movement in Intangible Assets	£000
	Balance at start of the year:	
1,893	Gross carrying amounts	2,536
(1,380)	Accumulated amortisation	(1,612)
513	Net carrying amount at 1 April	924
908	Additions - Purchases	207
(265)	Surrender of CRC Allowance	(196)
(232)	Amortisation for the year	(316)
924	Net carrying amount at end of year	619
	Comprising:	
2,536	Gross carrying amounts	2,547
(1,612)	Accumulated amortisation	(1,928)
924	Total	619

16. Assets Held for Sale

2018/19		2019/20
£000	Assets Held For Sale	£000
4,257	Balance outstanding at 1 April	5,543
0	Assets newly classified as held for sale	400
1,410	Revaluations and Restatements	(759)
47	Additions	20
(171)	Assets disposed of during the year	(3,833)
5,543	Balance outstanding at 31 March	1,371

17. Financial Instruments

Categories of Financial Instruments

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

31 March 2019				31 March 2020				Note
Non-current £000	Current £000	Total £000	Category	Non-current £000	Current £000	Total £000		
Financial Assets:								
0	10,680	10,680	Cash and cash Equivalents	Amortised Cost	0	24,682	24,682	22
0	65,420	65,420	Short term investments	Amortised Cost	30,005	55,365	85,370	
0	10,911	10,911	Debtors	Amortised Cost	0	15,900	15,900	21
8,421	3	8,424	Long term investments	Fair value through other comprehensive income	7,362	1	7,363	
8,421	87,014	95,435	Total Financial Assets		37,367	95,947	133,315	
0	8,020	8,020	Total non-financial assets (Statutory Debtors)		0	6,207	6,207	21
Financial Liabilities:								
219,605	20,507	240,112	External Borrowings	Amortised Cost	260,427	11,441	271,868	
82,832	2,303	85,135	PPP Liability	Amortised Cost	85,080	9,435	94,515	33
0	0	0	Donated Asset Account Liability	Amortised Cost	14,638	593	15,231	33
0	14,221	14,221	Creditors	Amortised Cost	0	17,353	17,353	23
302,437	37,031	339,468	Total Financial Liabilities		360,145	38,822	398,967	
0	24,530	24,530	Total non-financial liabilities (Statutory Creditors)		0	27,678	27,678	23

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 March 2019				31 March 2020		
Long Term	Short Term	Total	External Borrowings	Long Term	Short Term	Total
£000	£000	£000		£000	£000	£000
179,461	10,230	189,691	PWLB Loans	221,021	10,206	231,227
20,589	283	20,872	Lender Option/Borrower Option (LOBO) Loans	20,579	286	20,865
19,555	9,994	29,549	Loans from commercial lenders and other local authorities	18,827	949	19,776
219,605	20,507	240,112	Total Borrowings	260,427	11,441	271,868

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

Investments Designated at Fair Value through Other Comprehensive Income

31-Mar-19		31-Mar-20
£000	Non-Current Assets (Long-term)	£000
8,093	Equity Shareholding in Lothian Buses (Level 2)	7,036
331	Subordinated Debt Subscription in Newbattle DBFMCo (Level 3)	327
8,424	Total	7,363

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 assets in line with the published results of Lothian Buses. Lothian Buses trading conditions during 2020 resulted in a decision to withhold planned dividend payments to shareholders equating to an approximate £0.450 million loss of income for Midlothian. As a consequence of this an impairment of £7m has been applied in calculating the fair value of the Council's investment in the company.

Year to 31 Dec 18 £000		Year to 31 Dec 19 £000
160,629	Revenue	168,438
2,302	Profit before taxation	(7,386)
(1,590)	Taxation	(647)
712	Profit/(Loss) after tax	(8,033)
7,691	Ordinary dividend	0
475	Transfer to/(from) reserves	(12,317)
147,958	Net Assets at end of Year	135,641

Newbattle DBFMco

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

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

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

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

Income, Expenses, Gains and Losses

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

2018/19			2019/20	
Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure		Surplus or Deficit on the Provision of Services	Other Comprehensive Income and Expenditure
£000	£000		£000	£000
		Net gains/losses on:		
26	0	Investments in equity instruments designated at fair value through other comprehensive income	(674)	0
26	0	Total net/gains losses	(674)	0
		Interest Revenue:		
0	667	Financial assets measured at amortised cost	0	999
0	438	Other financial assets measured at fair value through other comprehensive income	0	52
0	1,105	Total Interest Revenue	0	1,051
0	8,522	Interest Expense	0	8,753
		Fee Expense:		
0	81	Financial assets or financial liabilities that are not at fair value through profit and loss	0	102
0	81	Total Fee Expense	0	102

Fair Values of Assets and Liabilities

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

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

The rates quoted in this valuation were obtained by Link Asset Services, the Council's treasury management consultants, from the market on 31 March 2020.

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

- The fair value of trade payables and other receivables is taken to be the carrying amount or billed amount;

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

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

31 March 2019				31 March 2020		
Carrying Amount £000	Fair Value (New Loan Rate) £000	Fair Value (Premature Redemption Rate) £000	Financial Liabilities	Carrying Amount £000	Fair Value (New Loan Rate) £000	Fair Value (Premature Redemption Rate) £000
189,691	240,864	285,683	PWLB Loans (Level 2)	231,227	267,874	399,750
20,872	31,598	38,849	Lender Option/Borrower Option (LOBO) Loans (Level 2)	20,865	30,702	46,702
29,549	31,777	31,817	Loans from commercial lenders and other local authorities (Level 2)	19,776	20,853	29,750
14,221	14,221	14,221	Creditors	17,353	17,353	17,353
85,135	85,135	85,135	PFI and Finance Lease Liability	94,515	94,515	94,515
0	0	0	Donated Asset Account Liability	15,231	15,231	15,231
339,468	403,595	455,705	Total Financial Liabilities	398,967	446,528	603,301

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

31 March 2019			31 March 2020	
Carrying Amount	Fair Value	Financial Assets	Carrying Amount	Fair Value £000
£000	£000		£000	
10,680	10,680	Cash and Cash Equivalents	24,682	24,682
65,420	65,420	Short Term Investments (Fixed Term Deposits)	85,369	86,092
10,911	10,911	Debtors	15,900	15,900
87,011	87,011	Total Financial Assets	125,951	126,674

The fair value of the financial assets is higher than the carrying amount because the authority's portfolio of investments includes a number of fixed rate deposits where the interest rate receivable is higher than the rates available for similar deposits at the balance sheet date. This shows a notional

future gain (based on economic conditions at 31 March 2020) attributable to the commitment to receive interest above current market rates.

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

18. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

Credit Risk

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

The Treasury Management Strategy, which is set annually and is monitored throughout the year, sets out the limits on both duration and maximum levels of deposits. The lower an institution's creditworthiness the lower the maximum duration and level of deposit will be. These Counterparties are chosen, by officers, using credit rating 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 this 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 £0.007 million (2018/19 £0.013 million). The Council deems this immaterial and therefore has not included any impact of this within the Comprehensive Income and Expenditure Statement (CIES).

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

- Lothian Buses Shareholding – Excluding 2020, there has been no default on the dividends payable to the Council over the period the Council has held this investment;
- Subordinated Debt Investment in Newbattle DBFM Co SPV – Whilst there are 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 within 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 SPV on an annual basis.

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

31 March 2019		31 March 2020
£000	Financial Assets	£000
10,680	Less than 3 months	54,968
20,406	3 to 6 months	14,999
30,008	6 months to 1 year	10,080
15,006	More than 1 year	30,005
76,100	Total Financial Assets	110,052

Liquidity Risk

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

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

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

31 March 2019		31 March 2020
£000	Financial Assets	£000
20,507	Less than 1 year	11,441
9,275	1 to 2 years	1,500
3,857	2 to 5 years	3,752
5,569	5 to 10 years	14,623
62,820	10 to 20 years	63,404
5,437	20 to 30 years	14,529
85,597	30 to 40 years	90,570
42,048	40 to 50 years	67,049
5,000	Greater than 50 years	5,000
240,110	Total Financial Assets	271,868

Refinancing Risk

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

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

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

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

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

Market Risk

Interest Rate Risk

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

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

- Decreases in interest rates will affect the interest earned on variable rate investments, potentially reducing income credited to the CIES;
- Increases in interest rates will affect interest paid on variable rate borrowings potentially increasing interest expense charge to the CIES;

- The fair value of fixed rate financial assets will fall if interest rates rise. This will not affect the balance sheet or the CIES for the majority of assets held at amortised cost, but will affect the disclosure note for fair value. It would have a negative effect on the balance sheet for those assets shown at fair value;
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not affect the balance sheet or CIES for the majority of liabilities held at amortised cost, but will affect the disclosure note for fair value.

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

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

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

31 March 2019 £000		31 March 2020 £000
	Impact on taxpayer & rent payers	
68	Increase on interest payable on variable rate borrowings	26
(759)	Increase in interest receivable on variable rate instruments	(869)
(691)	Net effect on Comprehensive Income and Expenditure Statement	(843)
	Other Presentational Changes	
	Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit in the Comprehensive Income and Expenditure Statement)	
(46,414)		(51,732)

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

Price Risk

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

Foreign Exchange Risk

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

19. Inventories

2018/19 £000	Inventories	2019/20 £000
881	Balance outstanding at start of year	868
734	Purchases	766
(747)	Recognised as an expense in the year	(890)
868	Total Long Term Liabilities	744

20. Long Term Debtors

2018/19 £000	Long Term Debtors	2019/20 £000
2,957	Prepayment to PPP Contractor	3,670
40	Pacific Shelf	43
2,997	Total Long Term Debtors	3,713

21. Short Term Debtors

2018/19 £000	£000	Short Term Debtors	2019/20 £000	£000
	4,795	Central Government Bodies		5,294
	116	Other Public Sector Bodies		59
		Other Entities and Individuals		
30,994		Council Tax	31,954	
(29,708)		Less Provision	(22,751)	
	1,286			9,203
7,386		Rents	4,026	
(1,650)		Less Provision	(1,600)	
	5,736			2,426
15,175		Other Entities	7,150	
(8,177)		Less Provision	(2,025)	
	6,998			5,125
	18,931	Total Short Term Debtors		22,107

22. Cash and Cash Equivalents

2018/19 £000	Cash and Cash Equivalents	2019/20 £000
502	Cash held by the Council	238
9,772	Short Term Deposits	26,391
406	Bank Current Accounts	(1,947)
10,680	Total Cash and Cash Equivalents	24,682

23. Creditors

2018/19 £000	Creditors	2019/20 £000
3,259	Central Government Bodies	1,418
2,466	Other Public Sector Bodies	2,075
33,026	Other Entities and Individuals	41,538
38,751	Total Creditors	45,031

24. Provisions

	Uninsured Losses (1) £000	VSER (2) £000	Total £000
Notes			
Balance at 1 April 2019	692	68	760
New provisions made during the year	525	0	525
Increase/(decrease) to existing insurance provisions during the year	0	0	0
Amounts used during the year	(381)	(68)	(449)
Balance at 31 March 20	836	0	836

Notes:

- (1) This relates to potential uninsured losses arising from insurance claims made against the Council;
- (2) The Council had in place for a period during 2018/19 a time limited Voluntary Severance Scheme (VSER) scheme. A provision was made in 2018/19 for staff release costs where employees have an agreed departure date as at 31 March 2019. These staff all left the Council during 2019/20.

25. Long Term Liabilities

2018/19 £000	Long Term Liabilities	2019/20 £000
124,359	Net Pension Liability (Note 34)	97,719
82,831	Public Private Partnership Liabilities (Note 33)	85,080
0	Public Private Partnership Donated Asset (Note 33)	14,638
207,190	Total Long Term Liabilities	197,437

26. Usable Reserves

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

27. Unusable Reserves

2018/19 £000	Unusable Reserves	2019/20 £000
(143,589)	Revaluation Reserve	(142,443)
(285,364)	Capital Adjustment Account	(359,447)
124,359	Pension Reserve	97,719
5,633	Employee Statutory Adjustment Account	7,145
2,165	Financial Instruments Adjustment Account	1,997
(7,743)	Available for Sale Financial Instruments Reserve	(6,686)
(304,539)	Total Unusable Reserves	(401,715)

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 downward 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.

2018/19 £000	Revaluation Reserve	2019/20 £000
(110,563)	Balance at 1st April	(143,590)
0	Adjustments to the Opening Balance	35,521
(110,563)	Revised Balance at 1st April	(108,069)
(32,275)	(Upward) / downward Revaluation of Assets	(22,355)
	Downward revaluation of assets and impairment losses not charged to the Surplus	
(10,744)	/ (Deficit) on the provision of services	(21,646)
5,565	Adjusting amount from Capital Adjustment Account	7,166
4,427	Accumulated losses on assets sold	2,461
0	Other movements	0
(143,590)	Balance at 31 March	(142,443)

Capital Adjustment Account

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

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

Note 6 provides further details of transactions posted to the account.

2018/19		2019/20
£000	Capital Adjustment Account	£000
(197,754)	Balance at 1st April	(285,364)
	Adjustments to the opening balance	
249	Adjustments relating to revalued assets	(35,521)
(197,505)	Revised Balance at 1st April	(320,885)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
30,139	Charges for depreciation on non-current assets	33,071
(74,219)	Valuation movements on non-current assets	(18,856)
232	Amortisation of intangible assets	316
1,944	Amounts of non-current assets written off on disposal or sale	4,632
(9,992)	Adjusting amounts written out of the Revaluation Reserve	(9,627)
164	Net revenue expenditure financed from capital under statute (REFFCUS)	592
(1,061)	Other movements	(274)
(250,299)	Net written out amount of the cost of non-current assets consumed in year	(311,031)
	Capital Financing for the year:	
(482)	Use of Capital Receipts to finance new Capital expenditure	(3,909)
457	Capital Receipts transferred to the Capital Fund	7,632
(24,557)	Capital Grants and Contributions credited to the CIES	(40,981)
(10,421)	Statutory Provision for the financing of capital investment	(11,158)
(64)	Capital expenditure charged against the General Fund and HRA (CFCR)	0
(285,364)	Balance at 31 March	(359,447)

Pension Reserve

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

2018/19		2019/20
£000	Pension Reserve	£000
85,513	Balance at 1st April	124,359
17,287	Remeasurements of the net defined benefit liability/(asset)	(42,897)
	Reversal of items relating to net changes for retirement benefits charged to	
36,488	Surplus or Deficit on the Provision of Services in the CIES	31,997
(14,929)	Employers pension contributions	(15,740)
124,359	Balance at 31 March	97,719

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. An example of this is annual leave entitlement due but not used by 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

2018/19		2019/20
£000	Accumulated Absences Account	£000
6,327	Balance at 1st April	5,633
	Settlement or cancellation of accrual made at the end of the preceding	
(6,327)	year	(5,633)
5,633	Amounts accrued at the end of the current year	7,145
	Amount by which officer remuneration charged to the CIES on an accruals	
	basis is different from remuneration chargeable in the year in accordance	
(694)	with statutory requirements	1,512
5,633	Balance at 31 March	7,145

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.

2018/19		2019/20
£000	Financial Instruments Adjustment Account	£000
2,333	Balance at 1st April	2,165
	Proportion of equivalent interest rate calculation on lender option/borrower option	
(9)	loans	(9)
(159)	Change in share of equivalent interest rate calculation	(159)
2,165	Balance at 31 March	1,997

Available for Sale Financial Instruments Reserve

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

2018/19		2019/20
£000	Available for Sale Financial Instruments Reserve	£000
(7,717)	Balance at 1st April	(7,743)
(26)	Revaluation of investments	1,057
(7,743)	Balance at 31 March	(6,686)

28. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20.

2018/19		2019/20
£000	Credited to Services	£000
22,109	Housing Benefit Subsidy	21,387
2,296	Unitary Charge Funding	2,444
2,273	Pupil Equity Funding	2,253
1,356	Community Justice Grant	1,341
965	LEADER Programme	1,073
0	Regenerating Rosewell Project	884
528	Track 2 Train	0
2,298	Other Entities and Individuals	2,107
31,825	Total	31,489

29. Capital Grants Received in Advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the grantor.

2018/19		2019/20
£000	Capital Grants Received in Advance	£000
24,410	Balance at 1st April	31,040
(112)	Opening Balance Adjustment	
	New capital grants received in advance, conditions of use no met	
3,777	Scottish Government Early years Grant	6,300
0	Scottish Government Town Centre Capital Fund	699
6,577	Section 75 contributions from private developers	7,806
32	Other Grants Received in Advance	(4)
<u>10,386</u>		<u>14,800</u>
(3,644)	Amounts released to CIES, conditions of use met	(11,914)
31,040	Balance at 31 March	33,927

30. External Audit Costs

The fee estimate payable to Audit Scotland in respect of the work carried out for audit services is £0.232 million (2018/19 £0.244 million). This includes external audit services carried out by the appointed auditor, Ernst and Young LLP. Where further additional work is required, fees will be agreed with management and reported to the Audit Committee.

31. Related Parties

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

The Scottish Government

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

Officers

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

Elected Members

Elected members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2019/20 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 2019/20 were declared by eight members:

- with voluntary bodies or charitable organisations that received funding totalling an estimated value of £2.135 million.
- with businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.490 million.

Included within the figure of £2.135 million are payments totalling £1.582 million to Rosewell Development Trust, mainly in relation to the construction of a new community hub. This figure includes £0.834 million of Scottish Government Regeneration Capital Grant.

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

Entities Controlled or Significantly Influenced by the Council

During the year the Council entered into material transactions with the Lothian Valuation Board. This amounted to £0.549 million (2018/19 £0.523 million). There was no balance due to or from the Lothian Valuation Board as at 31 March 2020.

The Council has a number of joint working arrangements with other local authorities. In 2019-20 payments of £1.831 million were made to other local authorities and income of £0.795 million was received from other local authorities.

The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.922 million of resource transfer funding to the Council in 2019/20 in respect of activities delegated to the Midlothian Integration Joint Board, as well as an additional £4.816 million in relation to Social Care Fund, £1.524 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

The Council delegated resources totalling £42.593 million to the Midlothian Integration Joint Board in 2019/20. 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 2020 the Council held £1.567million on behalf of the Board.

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.

2018/19		2019/20
£000	Capital Expenditure and Capital Financing	£000
333,678	Opening Capital Financing Requirement	359,774
	<i>Capital Investment:</i>	
31,557	Property, Plant and Equipment	55,745
0	Intangible Assets	168
33,781	Long Term Liabilities	27,743
164	Revenue expenditure funded from capital under statute	592
65,502	Total Capital Investment	84,248
	<i>Sources of Finance:</i>	
(3,304)	Capital Receipts	(487)
(22,217)	Government Grants	(22,916)
(2,403)	Contributions from other bodies	(14,632)
(11,482)	Loans Fund and Lease Repayments	(11,726)
(39,406)	Total Sources of Finance	(49,761)
359,774	Closing Capital Financing Requirement	394,261
26,096	Increase/(decrease) in Capital Financing Requirement	34,487

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

The value of assets held under such arrangement at 31 March 2020 are as follows:

2018/19		2019/20
£000	Value of PPP Assets	£000
64,284	Opening Balance	99,584
(1,117)	Depreciation	(3,534)
0	Written Back Depreciation on Revaluation	4,038
173	Revaluation	15,026
36,244	Additions	28,194
99,584	Closing Balance	143,308

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

There is a donated asset account at 31 March 2020 for the financing of the Millerhill Residual Waste asset of £15.231 million. The recognition of donated asset income will be on a flat line basis over the remaining 25 years of the contract.

There is a deferred liability at 31 March 2020 for the financing of these assets of £94.515 million (2018/19 £85.135 million), with the movement including the recognition of the Millerhill Residual Waste Facility deferred liability opening balance of £12.928 million.

During the year a total of £3.128 million (2018/19 £2.052 million) was paid in relation to finance lease deferred liabilities under such contracts. Details of future payments to be made under arrangements are:

	Liability £000	Interest £000	Service Charge £000	Total £000
Dalkeith Schools Campus				
Within 1 year	838	2,089	2,075	5,002
Within 2 to 5 years	4,247	7,460	8,833	20,540
Within 6 to 10 years	8,076	6,559	12,341	26,976
Within 11 to 15 years	8,395	1,944	9,695	20,034
Total Remaining Contract	21,556	18,052	32,944	72,552

	Liability £000	Interest £000	Service Charge £000	Total £000
Midlothian Primary Schools				
Within 1 year	866	2,103	2,063	5,032
Within 2 to 5 years	4,142	7,732	8,783	20,657
Within 6 to 10 years	7,120	7,722	12,272	27,114
Within 11 to 15 years	10,124	4,718	13,885	28,727
Within 16 to 20 years	6,578	881	7,665	15,124
Total Remaining Contract	28,830	23,156	44,668	96,654

	Liability £000	Interest £000	Service Charge £000	Total £000
Newbattle Community Campus				
Within 1 year	769	1,641	124	2,534
Within 2 to 5 years	3,486	6,154	529	10,169
Within 6 to 10 years	5,445	6,605	739	12,789
Within 11 to 15 years	6,968	5,081	837	12,886
Within 16 to 20 years	8,917	3,132	947	12,996
Within 21 to 25 years	6,860	725	659	8,244
Total Remaining Contract	32,445	23,338	3,835	59,618

	Deferred Liability £000	Interest £000	Service Charge £000	Total £000
Millerhill Residual waste				
Within 1 year	6,897	1,384	740	9,021
Within 2 to 5 years	267	3,176	3,278	6,722
Within 6 to 10 years	329	3,729	4,727	8,785
Within 11 to 15 years	713	3,352	5,198	9,263
Within 16 to 20 years	1,429	2,525	5,850	9,804
Within 21 to 25 years	2,238	916	5,336	8,490
Total Remaining Contract	11,873	15,082	25,129	52,085

34. Retirement Benefits

The Council participates in two different pension schemes which meets the needs of employees. Both schemes provide members with defined benefits related to pay and service.

Teachers

The Scottish Teachers Superannuation Scheme is an unfunded scheme administered by the Scottish Government. The scheme is excluded from the accounting requirements of *IAS 19: Employee Benefits* as it is a notional scheme which does not allow for the identification of pension liabilities consistently and reliably between participating authorities. The accounts, therefore, only include the payments made by the Council to the scheme in the year and do not reflect the estimated pension assets or liabilities of the scheme. The exception to this are payments in relation to unfunded pension enhancements for members of the scheme as they are administered through the Local Government Pension Scheme and are taken into consideration in accounting for pension costs under *IAS 19: Employee Benefits*.

In 2019/20 the Council paid £8.463 million (2018/19 £6.479 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 17.2% for the period to 31 August 2019 and 23% for the remainder of the financial year (2018/19 17.2%).

Local Government Pension (Scotland) Scheme

Employees other than teachers are eligible to join the Local Government Pension Scheme. The pension costs charged to services in respect of these employees have been calculated under *IAS 19: Employee Benefits*.

In 2019/20 the Council paid an employer contribution of £15.740 million (2018/19 14.929 million) into the Lothian Pension Fund, representing 23.75% (2018/19 21.9%) of pensionable pay. This is the expenditure met from Government Grants and Local taxation. It is estimated that the employer contribution for the period to 31 March 2021 will be £14.565 million.

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following transactions have been made in the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement.

2018/19 £000		2019/20 £000
	Comprehensive Income and Expenditure Statement	
	Cost of Services:	
24,738	Current service cost	28,714
9,188	Past service cost (including curtailments)	142
	Financing and Investment Income and Expenditure:	
15,952	Interest Cost	16,294
	Other Post Employment Benefit charged to the CIES:	
(13,390)	Expected Return on Scheme Assets	(13,153)
36,488	Total Post Employment Benefit Charged to the CIES	31,997

The service cost figures include and allowance for administration expenses of 0.3% of payroll.

In addition to the recognised gains and losses included in the CIES, actuarial gains of £38.124 million (2018/19 loss of £17.287 million) were included in other comprehensive income and expenditure in the CIES.

Assets and Liabilities in Relation to Retirement Benefits

2018/19 £000		2019/20 £000
	Reconciliation of Present Value of the Scheme Liabilities	
579,547	Opening Balance	669,772
24,738	Current service cost	28,714
15,952	Interest Cost	16,294
3,835	Contributions by Scheme Participants	3,960
50,778	Actuarial (gains)/losses	(78,992)
9,188	Past service cost (including curtailments)	142
(826)	Estimated Unfunded Benefits Paid	(801)
(13,440)	Estimated Benefits Paid	(13,648)
669,772	Closing Balance at 31 March	625,441

2018/19 £000		2019/20 £000
	Reconciliation of Fair Value of the Scheme Assets	
494,034	Opening Balance	545,413
13,390	Expected Return on Assets	13,153
3,835	Contributions by Scheme Participants	3,960
14,103	Contributions by the Employer	14,939
826	Contributions in respect of Unfunded Benefits	801
33,491	Actuarial gains/(losses)	(36,095)
(826)	Unfunded Benefits Paid	(801)
(13,440)	Benefits Paid	(13,648)
545,413	Closing Balance at 31 March	527,722

The expected return on the scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £625.441 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £97.719 million.

However, under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. The fund's actuary reported that, at 31 March 2017, the funding level was 98% and that a period of 20 years has been adopted in assessing the level of contribution required to fund that deficiency. The employer's contribution in 2019/20 was 353% of employee's contributions.

Basis for Estimating Assets and Liabilities

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

The main assumptions used by the actuary have been:

2018/19	Longevity at 65 for Current Pensions (Mortality)	2019/20
21.7	Men (Years)	21.7
24.3	Women (Years)	24.3
2018/19	Longevity at 65 for Future Pensions (Mortality)	2019/20
24.7	Men (Years)	24.7
27.5	Women (Years)	27.5
2018/19	Financial Assumptions	2019/20
2.5%	Rate of increase in Inflation/Pensions	1.9%
4.2%	Rate of Increase in Employee Earnings	3.5%
2.4%	Discount Rate	2.3%

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 20	Approximate % increase to the Employer Obligation	Approximate monetary amount £000
0.5% decrease Real Discount Rate	11%	67,591
0.5% increase in the Salary Increase Rate	2%	11,966
0.5 % increase in the Pension Increase Rate (CPI)	9%	54,515

Commutation

An allowance is included for future retirements to elect to take 50% of the maximum additional; tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

The Pension Fund Assets consist of the following categories, by proportion of the total assets held:

31-Mar-19		31-Mar-20		
Percentage of Total Assets	Pension Fund Assets	Quoted prices in active markets £000	Quoted prices not in active markets £000	Percentage of Total Assets
			Total £000	
	Equity Securities:			
11%	Consumer	50,296.3	50,296.3	10%
10%	Manufacturing	76,110.1	76,110.1	14%
7%	Energy and Utilities	33,658.6	33,658.6	6%
8%	Financial Institutions	34,322.0	34,322.0	7%
6%	Health and Care	36,518.4	36,518.4	7%
3%	Information Technology	22,810.6	22,810.6	4%
12%	Other	38,528.1	38,528.1	7%
	Debt Securities:			
0%	Corporate Bonds (Investment Grade)	8,838.9	19,422.1	5%
0%	Corporate Bonds (Non - Investment Grade)			0%
11%	UK Government	32,488.3	32,488.3	6%
0%	Other			0%
1%	Private Equity: All		4,591.5	1%
7%	Real Estate			
	UK Property	6,069.7	28,509.8	7%
	Overseas Property		464.9	0%
	Investment Trusts and Unit Trusts:			
1%	Equities	6,461.4	6,461.4	1%
3%	Bonds	2,265.1	2,265.1	0%
0%	Hedge Funds			0%
0%	Commodities			0%
12%	Infrastructure		74,199.5	14%
0%	Other			0%
	Derivatives:			
0%	Inflation			0%
0%	Interest Rate			0%
0%	Foreign Exchange	1,076.7	1,076.7	0%
0%	Other			0%
8%	Cash and Cash Equivalents: All	51,090.0	51,090.0	10%
100%	Total	400,534	127,188 527,722	100%

Projected Defined Benefit Cost for the period to 31 March 2021

Analysis of projected amount to be charged to operating profit for the period 31 March 2021:

Period ended 31 March 2020	Assets	Obligations	Net Liability/ (Asset)	% of Pay
	£000	£000	£000	
Projected Current Service Cost*	0	24,122	(24,122)	-36.8%
Past Service Cost (including curtailments)	0	0	0	0%
Effect of Settlements	0	0	0	0%
Total Service Cost	0	24,122	(24,122)	-36.8%
Interest Income on Plan Assets	12,179	0	12,179	18.6%
Interest Cost on Defined Benefit Obligation	0	14,527	(14,527)	-22.3%
Total Net Interest Cost	12,179	14,527	(2,348)	-3.7%
Total Included in Profit and Loss	12,179	38,649	(26,470)	-40.5%

*The current service cost includes an allowance for administration expenses of 0.3% of payroll. The monetary value is based on a projected payroll of £65.557 million.

The contributions paid by the employer are set by the Fund Actuary at each triennial valuation (the most recent being 31 March 2018), or at any other time as instructed to do so by the Administering Authority. The contribution payable over the period to March 2020 are set out in the Rate and Adjustments certificate.

Investment Returns

31 Mar 18 - 31 Mar 19		31 Mar 19 - 31 Mar 20
Percentage	Investment Returns	Percentage
9.40%	Actual Returns Percentage	4.20%
9.40%	Total Returns Percentage	4.20%

Local Government legislation provides that Local Authorities have an obligation to meet their share of the expenditure if the Joint Boards of which they are constituent members. At 31 March 2020 the liability for Pensions sits at £6.453 million. As a consequence the Council has additional liabilities arising from the pension deficit of the Lothian Valuation Joint Board.

When the LGPS benefit structure was reformed in 2015, transitional protections were applied to certain older members close to normal retirement age. Following legal proceedings argued in the McCloud and Sargeant cases, the Court of Appeal found that the transitional provisions introduced in the judges and firefighters' pension schemes in 2015 gave rise to unlawful age discrimination.

The UK Government requested leave to appeal this finding but this was refused by the Supreme Court on 27 June 2019. The UK Government has formally accepted the Court's decision and, recognising the implications for all public sector pension schemes, is engaging with relevant representatives to agree how the discrimination will be remedied.

In 2019 the Lothian Pension fund's actuary has adjusted GAD's estimate to better reflect the council's local assumptions, particularly withdrawal rates and salary increases. The estimated impact of the McCloud judgement was included in the 2018/19 financial statements as a past service cost estimated at £7.7 million. These numbers were high level estimates based on a combination of Scheme and Fund level calculations and therefore depend on various key assumptions which may or not be borne out in practice.

In July 2020 the Scottish Government announced a consultation on a remedy to address the requirements of the McCloud judgement. While adoption of this remedy was not finalised for local

government pension schemes at the time of approval of the draft financial statements, updated figures are reflected in the audited financial statements with a £4.773 million reduction in the net liability.

35. Contingent Liabilities

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

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

36. Midlothian Council Trusts, Bequests, Common Good and Community Funds

There are some 15 active trusts, bequests 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:

2018/19 £000	Trusts, Bequests, Common Good and Community Funds	2019/20 £000
11	Dalkeith Common Good Fund	12
2	Penicuik Common Good Fund	2
51	Community Mining Funds	51
21	Other Funds	22
85	Total	87

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

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

37. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2019/20 (The Code) requires Local Authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973

e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

Valuation of Property Plant and Equipment

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

Depreciation

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

Goodwill

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

Basis of Consolidation

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

Restrictions on the Transfer of Funds

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

	Share	Share of Assets	Share of Liabilities	Share of Revenues	Share of (Profit)/ Loss
Subsidiaries:	%	£000	£000	£000	£000
Trusts, Bequests, Common Good and Community Funds	100	87	87	2	(2)
Pacific Shelf 826 Ltd	100	0	44	0	3
Associates:					
Lothian Valuation Joint Board	9	184	674	(1,353)	(218)
Midlothian integration Joint Board	50	2,311	0	(74,566)	(372)

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
Midlothian Integration Joint Board	Its purpose is to improve the well-being of families, our communities and of people who use health and social care services. The Integration Scheme determines when the Council will have shared responsibility for additional funding with NHS Lothian and is linked to demographic shifts and demand volumes linked to service delivery.	Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith

Non-material Interests in Other Entities

In addition to the organisations outlined above, the Council also has an interest in Seemis Group LLP who provide Scottish Local Authorities with an Education Management System. Midlothian have a 1.90% interest in Seemis. Net assets at 31 March 2020 were £2.318 million, which would equate to a share of £0.044 million for Midlothian.

Housing Revenue Account (HRA)

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.

2018/19 £000	HRA Income and Expenditure Statement	2019/20 £000
Expenditure		
6,040	Repairs and Maintenance	6,257
5,035	Supervision and Management	5,245
(65,105)	Depreciation, impairment and revaluation non-current assets	(9,063)
50	Movement in the allowance for bad debtors	(50)
2,372	Other Expenditure	3,023
(51,608)	Total Expenditure	5,412
Income		
(27,223)	Gross Dwelling Rents	(28,631)
(356)	Non-dwelling Rents	(360)
(1,158)	Service Charge Income	(837)
(64)	Other Income	(37)
(28,801)	Total Income	(29,865)
(80,409)	Net Expenditure or Income of HRA services as included in the Comprehensive Income and Expenditure Statement	(24,453)
250	HRA Share of Corporate and Democratic Core	250
(80,159)	Net (Income)/expenditure for HRA Services	(24,203)
HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:		
23	(Gain) or Loss on sale of HRA non-current assets	724
6,166	Interest payable and similar charges	6,028
(364)	Interest and investment income	(553)
99	Net interest on the net defined liability benefit liability (asset)	122
(74,235)	(Surplus)/Deficit for the year on HRA Services	(17,882)

Movement in the HRA Statement

2018/19		2019/20
£000	Movement on the HRA Statement	£000
(33,863)	Balance on the HRA at the end of the previous reporting period	(39,084)
(74,235)	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement	(17,882)
Adjustments between accounting basis and funding basis under statute:		
65,105	Depreciation, impairment and revaluation non-current assets	9,063
(23)	Gain or (Loss) on sale of HRA non-current assets	(724)
4,456	Loans Fund Principal	4,899
(524)	Net charges made for retirement benefits in accordance with IAS 19	(667)
69,014	Total Adjustments between accounting basis and funding basis under statute	12,571
(5,221)	(Increase) or Decrease in year on the HRA	(5,311)
(39,084)	Balance on the HRA at the end of the current reporting period	(44,395)

Notes to the Housing Revenue Account

Housing Stock

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

2018/19	Housing Stock	2019/20
897	1 Bedroom	908
3,794	2 Bedroom	3838
1,835	3 Bedroom	1852
310	4 Bedroom	311
10	5/6 Bedroom	10
6,846	Total Housing Stock at 31 March	6,919

Other Information

2018/19		2019/20
£000	Other Information	£000
3,459	Total Rent Arrears	3,907
1,650	Bad Debt Provision	1,600
574	Void Rent Loss (netted against rental income)	652

Council Tax Income Account

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

Local Authorities 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 pay less; higher valued properties pay more.

The Council Tax Reduction Scheme was introduced in 2013/14 by the Scottish Government. This scheme replaced Council Tax Benefits, with funding being provided through the General Revenue Grant. Prior to 2013/14, funding for Council Tax Benefit was provided by the Department for Works and Pensions (DWP).

2018/19 £000	Council Tax Income Account	2019/20 £000
54,775	Gross Council Tax levied and Contributions in Lieu	58,547
	Less:	
(4,832)	Council Tax Reduction Scheme	(4,810)
(5,505)	Other discounts and reductions	(5,855)
(1,470)	Write-off of Uncollectable Debts and Allowances for Impairment	(1,573)
(42)	Prior year adjustments	71
42,926	Net Council Tax Income transferred to General Fund	46,380

Midlothian Council Tax Charge and Properties per Band

2018/19 Numbers	2018/19 £	Band	2019/20 Numbers	2019/20 £
0	713	A - Disabled	2	747
564	855	A	575	896
8,245	998	B	8,322	1,045
8,332	1,140	C	8,475	1,195
4,763	1,283	D	4,891	1,344
4,410	1,686	E	4,486	1,766
3,344	2,085	F	3,552	2,184
2,130	2,513	G	2,271	2,632
169	3,143	H	169	3,293
31,957			32,743	

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

	A Disabled	A	B	C	D	E	F	G	H	Total No of Properties
2019/20										
Number of Properties	0	979	12,549	11,033	5,617	5,030	3,759	2,405	177	41,549
Properties subject to Empty Homes Premium	0	13	35	41	16	12	13	9	2	141
Properties subject to Disabled Relief	2	37	39	(47)	0	(2)	(6)	(22)	(1)	0
Less:										
Exempt Properties	0	80	470	280	98	186	50	31	6	1,201
Properties Entitled to 25% Discounts	0	146	1,443	927	396	255	124	66	3	3,359
Properties Entitled to 50% Discounts	0	1	6	6	2	2	2	2	0	19
Properties Entitled to Other Discounts	0	4	19	22	10	6	3	3	0	66
Reduction in Tax Base due to Council Tax Reduction	0	225	2,363	1,318	236	106	35	20	0	4,303
Total Equivalent Properties 2019/20	2	575	8,322	8,475	4,891	4,486	3,552	2,271	169	32,742
Ratio to Band D	0.56	0.67	0.78	0.89	1.00	1.31	1.63	1.96	2.45	
Band D Equivalent Properties	1	383	6,473	7,533	4,891	5,894	5,771	4,448	413	35,808
Contributions in Lieu - Band D Equivalents										197
Sub Total										36,005
Less Bad Debt Provision at 3%										(1,171)
Total Council Tax Base										34,834
2018/19										
2018/19 Band D Equivalent Properties	0	376	6,413	7,406	4,763	5,794	5,434	4,172	413	34,770
Contributions in Lieu - Band D Equivalents										210
Sub-Total										34,980
Less Bad Debt Provision at 3%										(1,179)
Total Council Tax Base 2018/19										33,801

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.

2018/19 £000	Non-Domestic Rate Income Account	2019/20 £000
43,123	Gross Rates levied and Contributions in Lieu	43,428
	Less:	
(9,500)	Reliefs and other deductions	(10,306)
(554)	Write-off of Uncollectable Debts and Allowances for Impairment	(606)
33,069	Net Non-Domestic Rates Income	32,516
(2,978)	Prior year adjustments	(768)
(111)	Non-domestic rates income retained by the authority (BRIS)	(176)
29,980	Contribution to Non-Domestic Rate Pool	31,572
	Allocated:	
30,083	Contribution to non-domestic rate pool	31,667
(104)	Council Rate Income - non-pool	(95)
29,979		31,572
28,115	Amount distributed to Midlothian Council from non-domestic rate pool	31,615

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

Net Rateable Value Calculation

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Midlothian. The NNDR poundage is determined by the Scottish Government and for 2019/20 was 49p (2018/19 48p) per £ where the rateable value was less than or equal to £29,000 and 51.6p (2018/19 50.6p) per £ where the rateable value exceeded £51,000.

Small Business Bonus Scheme – from 1st April 2017, a ratepayer who occupies or is entitled to occupy one or 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 a rateable value of up to £18,000.

2018/19 Numbers	2018/19 £000	Analysis of Rateable Values and Number of Premises	2019/20 Numbers	2019/20 £000
1,868	48,636	Shops, Offices and Other Commercial Subjects	1,864	48,911
951	17,288	Industrial and Freight Transport	939	17,207
304	21,299	Miscellaneous (Schools etc.)	300	21,334
3,123	87,223	Total	3,103	87,452

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.

Internal Audit Work to August 2020

Report by Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee is asked to:

- a) Note the three final assurance reports associated with the delivery of the approved Internal Audit Annual Plan 2019/20 that had been pending during the Covid-19 emergency response;
- b) Note the Internal Audit Assurance Work in Progress and Internal Audit and Other Work 2020/21 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 three Internal Audit assurance reports associated with the delivery of the approved Internal Audit Annual Plan 2019/20 that had been pending during the Covid-19 emergency response have been finalised.

This report includes an Executive Summary of each 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.

Date 3 September 2020

Report Contact:

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3 Progress Report

- 3.1** The report 'Internal Audit Work to March 2020' presented to the Audit Committee on 22 June 2020 stated that there were three Internal Audit assurance reports associated with the delivery of the approved Internal Audit Annual Plan 2019/20 that were pending until there was Management capacity post-Covid-19 emergency response to conclude to final report stage. These reports have now been finalised.
- 3.2** The MLC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.
- 3.3** Internal Audit issued final assurance reports on the following subjects:
- Leisure Management Booking System
 - ICT Operational Processes
 - Information Governance (Records Management)
- 3.4** An Executive Summary of the final Internal Audit assurance report issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Internal Auditor's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

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

Current Internal Audit Assurance Work in Progress

- 3.5** Internal Audit assurance work in progress to deliver the Internal Audit Annual Plan 2020/21 consists of the following:

Audit Area	Audit Stage
Change and Transformation Programme	Drafting the Report
Business Planning, Budget Setting and Monitoring (including Workforce Planning)	Drafting the Report
Capital Investment	Drafting the Report
Property Maintenance	Testing underway
EU Funded Programme Tyne Esk LEADER	Testing underway

Internal Audit Consultancy and Other Work

- 3.6** Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter and Strategy:
- Undertaken Internal Audit Consultancy work relating to community resilience funds, infrastructure developments, participatory budgeting and housing allocation policy;
 - In its critical friend role provided an independent view and challenge at various forums including Business Transformation Board and the Capital Plan and Asset Management Board.
 - Follow up review of previous audit recommendations – sample check on the adequacy of new internal controls for Audit Actions flagged as closed.
 - Attended and provided support for the Risk Management Group.
 - Review of Audit Plan 2020/21 in light of the impact of Covid-19.
 - Joined the CIIA virtual Heads of Internal Audit forums, virtual SLACIAG meetings and SLACIAG Computer Audit Sub-Group quarterly meeting for personal learning and development.

Recommendations

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

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.

- 3.8** The table below summarises the number of Internal Audit recommendations made during 2019/20:

	2019/20 Number of Recs
High	0
Medium	5
Low	4
Sub-total reported this period	9
Previously reported	48
Total	57
Recommendations agreed with action plan	57
Not agreed; risk accepted	0
Total	57

4 Scottish Local Authorities' Chief Internal Auditors' Group (SLACIAG) Annual Report 2019

- 4.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 4.2 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams. A copy of the report for 2019 is provided for information (Appendix 2).
- 4.3 In particular, the Audit Committee may wish to note that:
- The Group considers learning and development needs and procures training for its members via the Training Sub-Group. Economies of scale make this a cost effective way of undertaking training courses;
 - Working groups are set up to consider time-specific matters of interest; such as the development of the 'peer review' approach for the periodic (at least 5 yearly) External Quality Assessment (EQA) against the Public Sector Internal Audit Standards (PSIAS); and
 - Sub-groups are in place to deliver specific remits e.g. Computer Audit (CASG) and Counter Fraud (SLAIG).
- 4.4 The Chief Internal Auditor has been a member of its Management Committee for many years, including Chair 2014-2016, to influence the work of SLACIAG, and attends / joins the SLACIAG quarterly meetings. One of the Internal Auditors is a member of CASG, and thus attends / joins those Sub-Group regular meetings. Members of the Internal Audit team attended all or part of the SLACIAG Conference in June 2019, which had the theme of 'Connections Collaborations Catalysts', to hear from a range of engaging speakers and to participate in workshops.
- 4.5 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within Internal Audit in local government to reinforce the important statutory role of Internal Audit. It is important that the Audit Committee acknowledges the benefits to the Midlothian Council Internal Audit function arising from its participation in this national forum.

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

5.1 Resource

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

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The 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.

5.4 Ensuring Equalities

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

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

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

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

A.5 Involving Communities and Other Stakeholders

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders. There is engagement between Internal Audit and the Council's External Auditors, EY.

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

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Leisure Management Booking System</p> <p>Category: Assurance – Risk</p> <p>Date issued: (deferred issue from March 2020 due to Covid-19 response) 8 July 2020 Draft; 27 August 2020 Final</p> <p>Level of Assurance: Substantial (Policy and procedures, income collection and security); Limited (Project Governance, reporting and the interface between the Legend and Integra systems)</p>	<p>The purpose of this assurance audit was to review the implementation of the new Leisure Management system, Legend, to ensure that the controls are working adequately and the benefits and outcomes highlighted at project initiation have been realised. The income management controls were also evaluated to ensure income is accurately collected.</p> <p>A Project Management Board to implement the Legend system was formed in 2017 after funding and a contract was agreed by CMT. The Project Board was made up of senior managers with an interest in the delivery, maintenance and ongoing improvement of the Legend system and had regular meetings until February 2019. The Project Definition Document outlines the scope and deliverables for the implementation.</p> <p>All Sport and Leisure centres (including the Snowsports Centre), Lifelong Learning and Employability (LLE), and Active Schools receipt their income through the Legend system. The total income receipted from 1 April 2019 to the end of February 2020 was £3.5m (this includes income collected online, through the centres' tills and by direct debit). The system was implemented in the centres in April 2018 and was rolled out to Active Schools and LLE in August 2019. Online class bookings went live in March 2019.</p> <p>Internal Audit considers that the level of assurance we are able to give is:</p> <ul style="list-style-type: none"> • Policy and procedures, income collection and security – substantial • Project governance, reporting and the interface between the Legend and Integra systems – limited <p>The governance of the project to implement the Legend system was not as effective as it could have been. The Project Board stopped meeting in early 2019 as the SRO (Senior Responsible Officer) and Project Manager left prior to the system being fully rolled out. A number of project actions are still outstanding and a closure report detailing the benefits realised and lessons learned was not produced. There is a lack of consistency across centres over the use of the system and supporting processes and management information is not being fully utilised. The large number of write-offs required on the system is impacting on the resource required from Financial Services and the inability to implement an automated reconciliation process between the Legend and Integra systems.</p>	0	3	0	<p>The Head of Adult Health and Social Care has assumed responsibility following the Senior Management restructure and a meeting was held in mid-February 2020 for the Head of Adult Health and Social Care to get a broad understanding of the system. The intended reconvening of a Project Board in March 2020 has been delayed by Covid-19 response (now scheduled early September 2020).</p> <p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations within acceptable timescales.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Leisure Management Booking System (cont'd)	<p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> • The Project Board for the Legend system should be resumed. It should review progress with the project objectives, any issues identified, any outstanding project actions and the project plan should be updated accordingly. Management information on the use of the Legend system, customer experiences and the marketing strategy should be communicated to Senior Management. (Medium) • The outstanding debt recorded on the Legend system should be reviewed and updated to ensure it accurately reflects any invoices paid via Integra. The refund policy for block bookings should be reviewed taking account of VAT regulations. (Medium) • Standardised processes and procedures for all centres should be implemented and a procedure for write offs should be created. Training should be provided to staff to ensure they are aware of the requirements. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: ICT Operational Processes</p> <p>Category: Assurance – carried forward from 2018/19</p> <p>Date issued: 27 February 2020 Draft (deferred Management response due to Covid-19 response); 3 September 2020 Final</p> <p>Level of Assurance: Limited (change and project management) and Substantial (incident and problem management; and the framework for the Service's assessment against best practice).</p>	<p>The purpose of this assurance audit was to evaluate the change / incident / problem management operational controls to ensure they are designed appropriately and that all parties are adhering to them. This included an assessment of the response to the Audit Scotland report "Principles for a digital future: Lessons learned from public sector ICT Projects" (May 2017).</p> <p>A Digital Led Transformation Group (DLTG), comprised of senior management from across the Council and Digital Services, has been established. The purpose of the DLTG is to set the overall direction and priorities for the development and deployment of ICT in the Council, and is tasked with ensuring that ICT plans take in the whole Council perspective in terms of streamlining information flows, focussing on customers and communities, and optimising infrastructure for pan-Council use. However, the DLTG has not met since May 2019. The Chief Officer Corporate Solutions has advised that the Medium Term Financial Strategy provides a structure for project prioritisation, and focus and priority was given to the strategic review of ICT service provision and the Digital Strategy, including options appraisal, which is to be concluded in Autumn 2020.</p> <p>Digital Services have effective processes to ensure ICT incidents and problems are appropriately logged and addressed. Severe incidents are reported to the Council's Risk Management Group and action plans are developed in response to these and progress is tracked by Digital Services Management and the Risk Management Group.</p> <p>Digital Services has participated in various external and self-assessment exercises, including annual Public Sector Network (PSN) certification, participation in SOCITM (Society for Innovation, Technology, and Modernisation) surveys, and the recent Digital Maturity Assessment review undertaken by the Digital Office for Local Government.</p> <p>Internal Audit considers that the level of assurance we are able to give is Limited for change and project management (weaknesses were noted with the governance of the DLTG, project prioritisation processes, consistency and completeness of project documentation, and closure reporting) and Substantial for incident and problem management and the framework for the Service's assessment against best practice.</p>	0	1	0	<p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendation within acceptable timescales.</p> <p>Re-establishment of the governance forum DLTG, which requires engagement from all Services, is designed to address both strategic change and project management issues identified in the audit</p> <p>A digitally-enabled transformational initiative requires to be primarily driven by Service Design through taking a holistic approach and involving relevant personnel from across the Council.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: ICT Operational Processes (cont'd)	<p>Internal Audit made the following recommendation:</p> <ul style="list-style-type: none"> • The DLTG should be re-established and reviewed to ensure: there is sufficient representation from all Services; the group is supported by adequate management information; there is a framework in place for strategic project prioritisation; appropriate training is provided; and clear governance is in place with other boards on forthcoming projects that have an impact on Digital Services. <ul style="list-style-type: none"> ➤ The approach taken to resourcing strategic digital projects should be reviewed. This review should take into account relevant external reports such as the Audit Scotland Report: “Principles for a Digital Future: Lessons Learned from Public Sector ICT Projects”, the results of the SOCITM survey and the outcome of the Digital Maturity Assessment by the Digital Office. ➤ The DLTG should ensure appropriate project quality assurance processes in line with agreed project methodology standards, including closure reporting and benefits realisation, are being applied consistently. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Information Governance (Records Management)</p> <p>Category: Assurance – Risk</p> <p>Date issued: (deferred issue from March 2020 due to Covid-19 response) 15 July 2020 Draft; 27 August 2020 Final</p> <p>Level of Assurance: Substantial (Records Management Plan); Limited (Audit Trail for electronic records, Digital Preservation, the in-house historical archive centre, quality assurance of the Information Asset Registers, training of staff and a formal action plan for reporting progress to Senior Management).</p>	<p>The purpose of this assurance audit was to assess the effectiveness of the governance, risk management and control processes over the management of the Council's records and archives.</p> <p>The Public Records (Scotland) Act 2011 requires public bodies to prepare and implement a Records Management Plan (RMP) which must set out the proper arrangements for the management of its records. The plan must clearly describe the way an authority cares for the records it creates, in any format, whilst carrying out its business activities and it must be agreed with the Keeper and be regularly reviewed.</p> <p>Where authorities fail to meet their obligations under the Act, the Keeper has powers to undertake records management reviews, issue action notices for improvement and publicise any failures.</p> <p>The Council's first RMP was approved by the Keeper in June 2014. The Keeper recommended that the Council and the Midlothian Licensing Board publish the agreed RMP as an example of good practice within the authority and the sector.</p> <p>The Council participated in a Progress Update Review (PUR) with the Keeper in 2019. The PUR mechanism is designed to provide a platform through which authorities can receive feedback and advice from the Keeper's Assessment Team following any internal self-assessment of their agreed RMP. The report noted that the Council continues to take its records management obligations seriously and is working to bring all elements into full compliance with the Act and fulfil the Keeper's expectations.</p> <p>Internal Audit considers that the level of assurance we are able to give is Substantial Assurance for the majority of the elements in the Council's records management plan and Limited Assurance for Audit Trail (for electronic records), Digital Preservation, the in-house historical archive centre, quality assurance of the Information Asset Registers, training of staff and a formal action plan for reporting progress to Senior Management. The latter elements in the main relate to Low risk improvements as indicated within the following recommendations.</p>	0	1	4	Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations within acceptable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Information Governance (Records Management)</p> <p>(cont'd)</p>	<p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> The Council's RMP should be updated and a records management action plan should be formalised and progress reported as part of the IMG's update to Management. This reporting should include an update on the expected roll-out of the Electronic Data Records Management System (EDRMS) across the Council, an update on the approach for Digital Preservation, the storage of the Council's historical archives, and a review of options on how to improve information on records submitted to the Council's records centre provider. This will help inform the revised RMP. (Medium) Progress should be made in addressing the outstanding record reviews, destructions, and the records with no retention category in the Iron Mountain system. (Low) Management should develop a plan for reviewing historical records held on Windows directory shared drives, establish in detail the compliance of all Council systems in relation to records retention rules, and improve the link between lead application officers and the RADM Team Lead. (Low) A programme of quality assurance reviews should be developed and commenced for the Information Asset Registers and adequate guidance should be created to support services in the identification of their vital records. This outcome of this review could also help enhance the detail of the Council's retention schedule (i.e. whether the record class contains personal information, and the system the record class is held in). (Low) The records management e-learning package should be promoted as part of the refreshed GDPR training and the Council's Records Champions listing should be reviewed to ensure it is accurate and up to date. (Low) 				

ANNUAL REPORT FROM THE CHAIR – 2019

“WORKING TOGETHER TO SUPPORT THE KEY ROLE OF INTERNAL AUDIT”

1. INTRODUCTION

- 1.1 Membership of the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) is made up of the Heads of Internal Audit from each Scottish Local Authority and the Strathclyde Partnership for Transport. The Group is a Special Interest Group of CIPFA Scotland, with operational arrangements, vision, and objectives set out in a formal Constitution.
- 1.2 The Group's vision is to be the voice of Internal Audit across Scottish Local Authorities and a driving force for best practice in respect of local authority internal audit, governance, and operations. In support of that vision the Group has the following objectives:
 - To secure a quality and responsive service for members of the group;
 - To develop the influence of the group with key decision makers and institutions in Scotland, as the key representative body for internal audit in local government with a particular emphasis on governance, risk, control and assurance matters;
 - To strengthen links and build long term relationships across the internal audit community within the public service;
 - To provide an effective group for the discussion of issues of common concern, sharing of good practice and commissioner of work to develop advanced practice;
 - To consider the development and training needs of our people as a collective to ensure that the best available products are procured at the best price;
 - To uphold the groups key values including: Respect; Openness and Honesty; Adding Value; Professional Team working; Sharing Best Practice; Integrity; Continuous Improvement.
- 1.3 The purpose of this Annual Report to key stakeholders is to provide an update on the Group's activities and achievements over the course of 2019 and to recognise actions required to achieve our vision.
- 1.4 SLACIAG has two sub-groups whose work is also reflected in this report.
 - The Computer Audit Sub-Group (CASG) and,
 - The Scottish Local Authorities Investigators' Group (SLAIG).

2. SLACIAG ACTIVITY AND ACHIEVEMENTS DURING 2019

- 2.1 We held our AGM in March 2019 and I continued my two-year appointment as Chair until March 2020.
- 2.2 Since 2018 the Chairs of both CASG and SLAIG attend the SLACIAG Management Committee to benefit from their sectoral expertise and to ensure synergy. The SLACIAG Constitution was amended at that time to reflect this change. Our Constitution remains under review to ensure it is fit for purpose going forward.
- 2.3 In June 2019 we held our bi-annual Conference at Dumfries House in East Ayrshire. The Conference was held over two days and attended by 98 delegates from our internal audit teams. The conference entitled “Connections Collaborations Catalysts” focused on procurement, contract management and cyber security with speakers from Scottish Government, Audit Scotland, Scotland Excel, DXC Technology, KPMG and four local authorities (East Ayrshire, Glasgow City, North Lanarkshire and Scottish Borders). This was the first time SLACIAG has used Dumfries House and it proved to be a fantastic venue in terms of value and suitability – an impressive setting befitting of the status of internal audit. The event featured in CIPFA Scotland's Regional Development Plan 2020 report.

2.4 During 2019 we met on four scheduled occasions with business coverage summarised as follows:

SLACIAG MEETINGS 2018		
Date	Host	Topics / Speakers
March 2019	South Lanarkshire Council, Hamilton	“Targeting the Use of Audit Resources” <ul style="list-style-type: none"> John Cornett, Audit Director, Audit Scotland – risk assessment and the role of assurance mapping. AGM
June 2019	Conference East Ayrshire Dumfries House, Cumnock	“Connections Collaborations Catalysts” <ul style="list-style-type: none"> Focused on procurement, contract management and cyber security. See paragraph 2.3 above
September 2019	Dundee City Council	Follow-on from the Conference: “Cyber Resilience Workshop” <ul style="list-style-type: none"> Paul Chapman, Head of Public Sector Cyber Resilience, Scottish Government Andy Grayland, Chief Information Security Officer, Digital Office Gemma Diamond, Senior Audit Manager, Audit Scotland Ian Aston, ICT Security Manager, East Ayrshire Council
November 2019	West Dunbartonshire Council, Dumbarton	“Data Analytics” <ul style="list-style-type: none"> Peter Hampton/Eddie McGinney, NHS Counter Fraud Services Mitchell Collins/Andrew Low, Scott-Moncrieff Morag Campsie, Senior Manager, Audit Scotland “Trust in Audit” <ul style="list-style-type: none"> Fiona Kordiak – Chair of CIPFA Scotland

2.5 All of the meetings continue to be well attended, re-affirming the value of the Group to members through the variety of topics considered by the Group over the course of the year and the calibre of speakers who attended and presented. This is particularly pleasing as we continue a period of significant change across Local Government and for Internal Audit. The Group strives to ensure involvement across the whole profession with an ever increasing emphasis on the involvement of members of Internal Audit teams, particularly through CASG and SLAIG, as well as Heads of Internal Audit.

2.6 There is a continuing healthy interest in supporting various working groups (e.g. training and PSIAS External Quality Assessment) and the Management Committee. The Management Committee at the end of 2019 is as follows:

SLACIAG MANAGEMENT COMMITTEE 2019		
Eilidh Mackay	East Ayrshire Council	Chair SLACIAG
Paul Doak	North Ayrshire Council	Secretary SLACIAG
Kevin O’Kane	Stirling Council	Treasurer SLACIAG
Andrea McMahon	Renfrewshire Council	former Chair SLACIAG
Jill Stacey	Scottish Borders/Midlothian Councils	former Chair SLACIAG
Colin McDougall	West Dunbartonshire Council	SLACIAG member (retired December 2019)
Francis Scott	Glasgow City Council	SLACIAG member (stood down 2019)
Jackie Clark	Perth & Kinross Council	SLACIAG member
Pamela Redpath	Dundee City Council	SLACIAG member
Paul Macaskill	Comhairle nan Eilean Siar	SLACIAG member
Laurence Slavin	Argyll & Bute Council	SLACIAG member
Avril Cunningham	Fife Council	SLACIAG member
Peter Moore	East Lothian Council	Chair CASG
Barry Moncur	East Dunbartonshire Council	Chair SLAIG

- 2.7 March 2018 had marked the first PSIAS deadline for completion of External Quality Assessments (EQAs), an exercise to be completed at least 5 yearly. Planning began in 2019 for EQA2 with most members continuing to participate in the peer review exercise.
- 2.8 At the AGM In March 2019 the Treasurer presented the draft annual accounts which were approved for audit. The Group's healthy financial position allowed the subscription rates to be held at the current level for another year and allow a variety of training opportunities to be promoted as well as subsidised delegate fees for the 2019 conference to support attendance. The audited accounts were presented at the November meeting.
- 2.9 The SLACIAG Management Committee meets up to twice each year and during 2019 we met in June during the Conference and in October. The SLACIAG Chair attends meetings of the CIPFA Scotland Branch Executive Committee. The Chair of the CIPFA branch addressed SLACIAG in November 2019.
- 2.10 During 2019 we sought to recruit nominees to be appointed as office bearers at the March 2020 AGM and I am delighted to confirm that we have nominees for all four posts – Chair, Vice Chair, Secretary and Treasurer with new members joining the Management Committee.

3. COMPUTER AUDIT SUB-GROUP

- 3.1 The main aim of the Computer Audit Sub-Group (CASG), which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss computer audit practices and developments. This includes raising awareness of new standards, updates to legislation, new and current topics of interest, and computer audit developments, resources, and techniques. CASG meets three times per annum and the meetings continue to cater for computer audit knowledge from novice through to professional level and were attended by auditors from Local Authorities as well as from Strathclyde Partnership for Transport and Scottish Water.
- 3.2 Meetings have included presentations and discussions on a range of topics with speakers from within and out-with the group with business as follows:

CASG MEETINGS 2019		
Date	Host	Topics / Speakers
May 2019	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> Group discussion covering cyber security projects and IT assets GDPR audit carried out by User access control audit carried out by East Lothian Council
August 2019	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> This meeting took the form of a workshop focused on data analysis and comprised of two presentations from Fife and August. Network security audit carried out by Fife. Audit report on fraudulent change of bank details by Fife.
November 2019	CIPFA Offices, Edinburgh	<ul style="list-style-type: none"> IT Supply Chain Assurance presentation by Allan Munn Use of IDEA v Excel – Ashley Bickerstaff, Glasgow City Council Group discussions around Business Continuity Plans, In House Cyber Security Training and Intellectual Property Rights Audit Report Presentations on BCP / DR and Treasury Management

4. SCOTTISH LOCAL AUTHORITY INVESTIGATORS SUB-GROUP (SLAIG)

- 4.1 The main aim of SLAIG, which is a permanent sub-group of SLACIAG, is to provide a forum to share and discuss counter fraud practices and developments. This includes raising awareness of updates to legislation, new and current topics of interest, and developments in counter fraud activities. SLAIG meets four times per annum.
- 4.2 The absence of statutory offences and the reliance on common law offences continues to be of concern and representation on this issue has been made to the Scottish Government to consider legislative powers similar to those available to Local Authorities in England. The response for statistical information from authorities remains very poor. Without the collation of the information it is unlikely that any further representation can be made regarding the legislative powers.
- 4.3 The Code of Practice on Interviewing, which all authorities will have to comply with, has not yet been released by Crown Office & Procurator Fiscal Service. The draft code is currently with the Law Officers for consideration.
- 4.4 Angus, Comhairle nan Eilean Siar, East Dunbartonshire, Fife, Glasgow City, Highland and Stirling concluded a Pilot exercise with the Audit Scotland in relation to data matching Small Business Bonus Scheme recipients. The pilot proved to be successful and it is envisaged that it will become mandatory in future National Fraud Initiative exercises.
- 4.5 The Group has heard from speakers on various topics of interest as follows:

SLAIG MEETINGS 2019		
Date	Host	Topics / Speakers
February 2019	CIPFA	Gary Smith, Scottish Borders Council – Fraud Vulnerabilities in NDR
May 2019	CIPFA	Ricky Hutton, Police Scotland – Insider Threat Robert Wylie, Transport Scotland – Blue Badge
August 2019	CIPFA	Stacy Keen, Pinsent Masons - APSE Training Karen McNeill, DWP – Joint Working Stuart Saunders, West Lothian – Case study
December 2019	CIPFA	Fiona Gray, Improvement Service – Data Hub

5. SUMMARY & KEY MESSAGES

- 5.1 In summary, SLACIAG has had another successful year through the efforts of its members. Individually and collectively this professional network helps to reinforce the important statutory role of internal audit and the value internal audit can add to an organisation especially in times of change.
- 5.2 On a continuous basis Heads of Internal Audit have responded positively and proactively to changing national and local environments by taking on extra responsibilities including shared services, arm's length external organisations and Integration Joint Boards; often with reduced resources.
- 5.3 We welcome the 2019 revision to the CIPFA statement on, "The Role of Head of Internal Audit" which set out key messages for us and our employers including:
 - The head of internal audit (HIA) occupies a critical position in any organisation, helping it to achieve its objectives by evaluating the effectiveness of governance, risk management and internal control arrangements and playing a key role in promoting good corporate governance. The aim of this Statement is to set out the role of the HIA in public service organisations and to help ensure organisations engage with and support the role effectively.
 - CIPFA considers it essential that public service organisations properly support their internal auditors to enable them to meet the standards.

5.4 Going forward there are three key challenges for us, CIPFA and our employers:

- The requirement for our internal audit and corporate fraud teams to continue to step up to meet the challenges of change and transformation; and
- Strengthening the relationship between CIPFA and SLACIAG to ensure that we can fulfil our objective of being the key influencer on internal audit matters in local government in Scotland (for example being consulted on CIPFA internal audit statements) and influencers within our own organisations; and building on relationships with other key standard setting bodies most notably the IIA; and
- That our employers fully support us to meet the objectives of the CIPFA statement on “The Role of the Head of Internal Audit”; including reflecting on resources and positioning within the organisation.

6. ACKNOWLEDGEMENTS

- 6.1 Firstly, I would like to take this opportunity to thank the Committee and all Group and Sub-Group members for their strong support and contributions during my two years as Chair and note my thanks also to the four members of the Group who have stepped forward to be our new office bearers from 2020. The network relies on contributions from every one of us and I call upon those who do not regularly attend or contribute more widely to allow us to benefit from their involvement going forward.
- 6.2 Secondly, I would like to thank the Secretary and Treasurer who have remained as office bearers beyond their expected terms and those who have led and participated in our training and EQA working groups who have been generous in their support to the group. I am very grateful for their support.
- 6.3 Thirdly, I would like to thank those Councils who hosted our meetings during the year and all of the speakers who gave up time in their busy schedules to contribute to our learning and exchange of experience.
- 6.4 On a personal basis I would like to thank both East Ayrshire Council and my team for their continued support. My team actively supported the organisation of the SLACIAG Conference which also benefitted from a wider support within our Council. Our Chief Executive continues to support the positioning of internal audit within our Council where I report directly to her and sit on the Council Management Team.
- 6.5 Finally, I would like to note the contributions of Colin McDougall, West Dunbartonshire Council, who retired at the end of 2019 for his longstanding and active contribution to the Management Committee and to Francis Scott, Glasgow City Council, who stood down from the Management Committee, although he very much remains an active contributor.

Eilidh Mackay B.A. (Hons), CPFA
Chief Auditor, East Ayrshire Council
Chair of SLACIAG
8 March 2020

Internal Audit Follow-Up of Completed Recommendations**Report by Chief Internal Auditor****Report for Decision****1 Recommendations**

The Audit Committee is asked to:

- a) Note the results of the spot check on Internal Audit recommendations that have been marked as completed by Management in the period April 2019 to March 2020 to improve internal controls and governance, and mitigate risks; and
- b) Considers whether it is satisfied with the outcomes or whether any further action is required.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide an update to members of the Audit Committee on the results of the Internal Audit Recommendation Follow-up Review which included a sample check on the adequacy of new internal controls for Audit Actions flagged as closed.

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.

The Remit of the Audit Committee includes "To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

Date 9 September 2020

Report Contact:

Jill Stacey Tel No
jill.stacey@midlothian.gov.uk

3. Background

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Midlothian Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to improve internal controls, risk management and governance. At Internal Audit Final Report stage the Audit Recommendations are input to Pentana, the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks and evidence improvement.
- 3.4 Each year, Internal Audit undertakes two follow up reviews on the recommendations it has raised. The first checks a sample of Internal Audit recommendations which have been reported as complete and reviews the adequacy of the actions taken and improvements made (the subject of this report). The second reports on the progress Management have made in implementing the recommendations by the expected date (scheduled for 8 December 2020 Audit Committee).
- 3.5 The Remit of the Audit Committee includes "To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

4. Update Report

- 4.1 The objective of this follow-up audit was to review a sample of Internal Audit recommendations that have been signed off by Management as complete during the period 1 April 2019 and 31 March 2020 to assess the evidence that recommendations have been implemented satisfactorily and to ensure that the new controls had the desired effect on improving internal control and governance, and reducing risk.
- 4.2 A sample of 36 audit recommendations were selected, which were shown at the 'completed' status on the Pentana system, relating to the following Internal Audit reports and evidence was obtained to support the satisfactory completion of each recommendation sampled. Details are as below:

Audit Report	No. Recs in Sample	High Rated	Medium Rated	Low Rated
Asset Registers	1		1	
Attendance Management	3			3
Commercial Rents	3			3
Developer Contributions	5		5	
Following the Public Pound	6		5	1
ICT Security Controls	6		4	2
Performance Management	3		1	2
Pupil Equity Funding	5	1	3	1
Sales to Cash	2		2	
Social Care Income Charging and Billing	2			2
Total	36	1	21	14

- 4.3 From the 36 recommendations tested, 1 (3%) was not completed, 28 (78%) were found to have been completed satisfactorily and 7 (19%) were identified as partially satisfactory requiring further work.
- 4.4 The audit recommendation that was not completed was Medium-rated and was the revised Supplementary Planning Guidance which is still in draft and has not yet been approved by the Planning Committee (Developer Contributions). This audit action has been re-opened on the Pentana system to enable the action to be completed by the end of 2020 with evidence of the improvement action undertaken.
- 4.5 Of the 7 audit actions identified as partially satisfactory requiring further work: 1 was High-rated and related to the procurement of contracts using Pupil Equity Funding - this was implemented at the time but has not been sustained; 6 were Medium-rated and related to Asset Registers (1), Developer Contributions (2), Following the Public Pound (1), Pupil Equity Funding (1), and Sales to Cash (1). Discussions have been held between Internal Audit and the action owners to highlight what is required to ensure the remaining elements of the audit actions are fully completed or a sustained control is established.
- 4.6 A key factor for Management to enable and evidence sustained controls is having documented processes, workflows or checklists that are up-to-date and published where they are accessible to ensure there is awareness of the expected control (first line); supplemented by Management oversight and monitoring that arrangements and controls are operating effectively (second line). This is of particular importance for Midlothian Council at a time of rapid change in personnel, roles and structures within the organisation.
- 4.7 The Corporate Management Team considered the Internal Audit follow-up findings on 9 September 2020. It was agreed that Internal Audit would work with Directors as a critical friend to ensure the remaining elements of the audit actions are fully completed or a sustained control is established, to assist with continuous improvement. Progress has already been made on these; one action is now fully complete.

- 4.8 Internal Audit will carry out the second Internal Audit Recommendation Follow-up Review within the Internal Audit Annual Plan 2020/21 in due course. The objective of the second review will be to assess Management's reported performance in closing actions raised by Internal Audit by the agreed due date. The outcomes and any matters of concern will be reported to CMT and the Audit Committee in December 2020.

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

5.1 Resource

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

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The recommendations made by Internal Audit are designed to reduce the level of risk to which the Council is exposed through the strengthening of the control environment and management of risks.

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

5.4 Ensuring Equalities

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

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

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."

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

A.5 Involving Communities and Other Stakeholders

The Chief Internal Auditor is accountable to the Audit Committee which, in fulfilling its governance role, acts as a bridge between the Council and other stakeholders. This report is presented to the Audit Committee to fulfil its remit "monitor the implementation of agreed actions", as part of its high level oversight of the Council's governance, risk management and control framework.

This report has been presented to the Corporate Management Team to outline the key messages of assurance and areas of improvement. The implementation of Audit recommendations will continue to be tracked by Management using the Pentana system and followed-up by Internal Audit. Any further matters of concern will be raised to CMT and the Audit Committee as appropriate.

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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

Risk Management, Update for 1 January 2020 – 30 June 2020

Report by Chris Lawson, Service Manager – Waste, Risk & Resilience

Report for Information

1 Recommendations

Audit Committee is recommended to:

Note the quarter 4 2019/20 and quarter 1 2020/21 Strategic Risk Profile report and consider the response to the issues, risks and opportunities highlighted for the period covered.

2 Purpose of Report/Executive Summary

Audit Committee has requested regular reporting on the Council's Strategic Risks. The Strategic Risk Profile seeks to provide a strategic look at the current issues, future risk and opportunities facing the Council.

The purpose of this report is to provide Audit Committee with the 2019/20 quarter 4 and 2020/21 quarter 1 strategic risk management update, covering the period 1 January 2020 to 30 June 2020.

Date 28 September 2020

Report Contact:

Chris Lawson, Service Manager – Waste, Risk and Resilience

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chris.lawson@midlothian.gov.uk

3 Background/Main Body of Report

- 3.1 Midlothian Council went into quarter 4 of 2019/20 with the most significant issues facing the Council associated with the change programme and financial sustainability. Details of the risk responses associated with these are contained in Appendix B1 covering quarter 4 2019/20 and appendix B2 covering quarter 1 2020/21.

During January 2020 the global understanding of a new virus was developing following an outbreak in Wuhan China. The UK Government began introducing travel restrictions from Wuhan in China. Through February cases were being reported around the world with a major outbreak reported in Italy. The UK started seeing the first confirmed cases of COVID-19 in the UK at this time. In response to the developing situation Midlothian Council began reviewing arrangements across services in anticipation of a potential escalation of cases within the UK.

The number of COVID cases rose sharply through March 2020 with a corresponding number of associated deaths in the UK. In response CMT established a Council Incident Management Team (CIMT) to co-ordinate local response to national guidance and local need. CIMT took steps to protect potentially vulnerable employees and moved services on to critical services in response to the UK lockdown on 24 March 2020.

The shift in focus during the second half of quarter 4 2019/20 and through quarter 1 2020/21 to respond to the Pandemic has resulted in a range of impacts. The Strategic risk register seeks to capture the strategic risk including the impacts and response arising from COVID-19.

The Council's strong focus on risk management, particularly in terms of health and safety management has directly supported the process of local level response at a team level, supporting the need for rapid responses to the changing national guidance throughout this period.

The update report on the Council financial position was presented to Council on 25 June 2020. The quarter 1 monitoring report included an update on the impact of the pandemic against the planned change programme and on income generating activities.

Against this backdrop the UK stopped being a member of the European Union at 23:00 on 31 January 2020. The UK is now in a transition period up to, but not beyond, the 31 December 2020; as the UK Government have legislated not to extend the transition period beyond this point. In the period between 31 January 2020 and 31 December 2020 the UK government are negotiating the future relationship with the European Union (EU) including trade arrangements. There remains a risk of significant change from the current established approaches in many areas. The Council will therefore continue to monitor progress by the UK Government and where necessary will develop suitable approaches to reflect the new settlement position at the end of 2020.

The Council's EU Exit Working Group has been reconvened to enable suitable planning to take place in response the new relationship with the EU and any changes which may impact services or supplies. Midlothian Council are working with partners including CoSLA to monitor developments in this area.

The on-going risk associated with financial stability and balancing the budget in future years remains, with the medium term financial plan seen as the tool to put the Council's finances on a more stable footing.

Spending within budget will continue to be closely monitored through the Business Transformation Steering Group with steps taken to realign spend where its identified as being off target.

The highest rated issues at Q4 and Q1 respectively were COVID 19, Financial stability and the Change Programme.

The highest rated risks set out within the strategic risk profile at quarter 4 and 1 were associated with the 'Early Years expansion', the 'abuse claims project' the 'Scottish abuse inquiry', Asset Management and the Long term change programme.

Midlothian Council is a key partner within the Midlothian Integration Joint Board (MIJB). The Strategic risks relating to the MIJB are reported to the MIJB Audit and Risk Committee as part of its own governance arrangements, details of which can be found on [Midlothian Council's website](#).












3.2 Strategic Risk Profile Summary

The Top Strategic Issues are summarised in table 1.







Top Issues	Likelihood	Impact	Score	Evaluation	
COVID 19	5	5	25	Critical	
Financial Stability	5	4	12	High	
The Change Programme	4	4	16	High	

The Strategic Risks for the Council are summarised in table 2 below.

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Early Years Expansion (1140 Hours)	4	5	20	High	
Scottish Child Abuse Inquiry	5	4	20	High	
Scottish Child Abuse Claims Project	4	5	20	High	
Asset management	4	5	20	High	
The Longer Term Change Programme	4	4	16	High	
Information Security	3	5	15	Medium	
Cyber Security	3	5	15	Medium	
Health and Safety	3	5	15	Medium	
Financial Sustainability in future years	3	4	12	Medium	

Strategic Risks	Likelihood	Impact	Score	Evaluation	
Growing Council	3	4	12	Medium	
Care at Home	3	4	12	Medium	
UK decision to leave the EU	3	4	12	Medium	
Governance and standards	3	4	12	Medium	
Employee performance	3	4	12	Medium	
Emergency planning and business continuity	3	4	12	Medium	
Climate change	3	3	9	Medium	
Legal and regulatory compliance	3	3	9	Medium	
Working with other to deliver outcomes	3	3	9	Medium	
Internal control environment	3	3	9	Medium	
Corporate policies and strategies	2	3	6	Low	

The Strategic Opportunities for the Council are summarised in table 3.

Strategic Opportunities	Likelihood	Impact	Score	Evaluation	
City deal	5	5	25	Critical	
Growing Council	5	5	25	Critical	
Creating a World Class Education System	4	5	20	High	
Shawfair	5	4	20	High	
Borders rail	5	4	20	High	
Easter Bush – Penicuik	5	4	20	High	

3.3 STRATEGIC ISSUES – RATED CRITICAL AND HIGH

3.3.1 COVID 19

Midlothian Council responded to the developing situation relating to COVID 19 during quarter 4 2019/20 and quarter 1 2020/21. Response to the Pandemic included implementing social distancing measures in workplaces and for services users as services re-opened following lockdown during June, planning for potential increased mortality rate, delivering services to clients with COVID 19, deploying remote working to a significant number of employees, re-deployment of employees to focus on delivery of critical services, support those who were directed to shield and provide hub facilities from the point schools closed as directed by the Scottish Government.

3.3.2 Financial Stability

Council approved the 2020/21 budget as part of the MTFs on 11 Feb 2020. The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.

3.3.3 The Change Programme

Monitoring the oversight of the Change Programme is delivered through dashboard reporting prepared by each Chief Officer/Head of Service and reported (6 weekly) to the Business Transformation Board. This is in addition to continued quarterly financial reporting by Financial Services.

3.4 STRATEGIC RISKS – RATED CRITICAL/HIGH

3.4.1 Financial sustainability in future years

Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020. The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.

3.4.2 Growing Council

Midlothian Council was identified in 2018 as the fastest growing Council in Scotland with a projected population growth of 26% between 2014 - 2039. This would see the population of Midlothian grow from 86,220 – 108,369 by 2039. The growth is expected to see the 0-15 population increase by 20%. The fastest rate increase is expected in the 75+ population with a projected 106% increase between 2014 and 2039. Failure to resource and plan for these rises will significantly impact the Council's ability to fulfil its statutory obligations in relation to these groups.

Capacity available in school as a result of the rising population is causing a risk. The school estate capacity report and pupil intake limit report was presented to council on 12 November 2019. The updated Capital Investment Strategy, of which the learning estate forms part of, was reported to February Council 2020. The multi-disciplinary group were meeting fortnightly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider service school estate needs.

While COVID had resulted in an impact on the property sector during lockdown, the Scottish governments' phased plan for the construction sector has seen house building re-start.

3.4.3 Asset Management

This risk reflects the challenges managing the need for increased assets to meet the growth demand against the current financial backdrop of reducing revenue. The Capital and Asset Management Board is putting in place interventions to allow it to more robustly monitor the of capital projects with a value of more than £1m, recognising that slippage in the capital programme weakens the overall financial management.

3.4.4 Scottish child abuse inquiry and Scottish child abuse Claims

The Council have an Abuse Inquiry Project Team and a Claims Project Team to support the Council to prepare for information requests to support the Inquiry and in preparation of any claims that may arise.

SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors.

Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.

3.4.5 Cyber Security

Digital Services were in a good position at the start of lockdown having a number of secure (UK government approved) remote working solutions that could be scaled to meet service requirements. Business continuity plans facilitated the deployment of hundreds of additional laptops, smartphones and home PC access. Video conferencing solutions such as Zoom, WhatsApp, Vscene and Microsoft teams were also deployed to maintain secure communication and keep staff safe while responding to the public health emergency.

During this reporting period, new guidance was rapidly produced to support secure remote working and privacy impact assessments were conducted to manage the GDPR risks of new processes and activities during the pandemic. Despite the challenges, in May the Council received PSN security certification from the Cabinet Office and the Councils Information Management Group continued to meet fortnightly to ensure security and data protection risks were minimised.

Remote working has undoubtedly introduced new risks as systems and data are accessed remotely. This can increase the risk of data breaches and cyber-attack through ransomware, phishing and hacking. Further work is planned to try and mitigate these risks further.

Remote Access Summary

Devices	Pre-COVID19 Deployment	COVID19 Response Deployment	Totals
Laptops	1340	375	1715
Smartphones	947	100	1047
Home PC Access	0	240	240
Staff with remote access	2287	715	3002

3.4.6 Early Years Expansion (1140 Hours)

Following the Scottish Government's decision to increase the number of free early learning and childcare hours to 1140 from August 2020 the council has commenced preparations with its partners. The two key strands to the successful implementation are the recruitment and training of staff and the physical increase in 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.

Capacity available in school as a result of the rising population is causing a risk.

The school estate capacity report and pupil intake limit report was presented to council on 12 November 2019. In addition the updated learning estate strategy, forming part of the Capital Investment Strategy was report to February Council. The multi-disciplinary group are meeting regularly to identify and address potential barriers to delivery of building work associated with 1140 hrs and wider service school estate needs.

3.4.7 The Longer Term Change Programme

The strands of work that will continue to be necessary to address the projected budget shortfalls in the medium term, encompassing:-

- Business Transformation Board;
- The Delivering Excellence programme;
- The Transformation Programme;
- The EWiM programme;
- An updated Capital Strategy and Reserves Strategy; and
- Operational savings encompassing financial discipline measures.

3.5 STRATEGIC OPPORTUNITIES

3.5.1 City Deal

South East Scotland Region City Deal - bid for funding to Scottish and UK Governments to accelerate economic growth through investment in infrastructure/ housing/ skills and innovation was agreed by Council in June 2018.

3.5.2 Fastest Growing Council

Midlothian Council has been identified in 2018 as not only the fastest growing Council in Scotland in recent years, but projections show it will remain so, possibly for a further ten years.

This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.

This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing sector, in addition to the expansion in Council House building. This construction will directly support employment in construction and will see a steady increase in the volume of Council tax received over time.

3.5.3 Creating a world Class Education System

The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. Funding has been approved by Scottish government to create a STEM centre of excellence as a replacement for Beeslack High school.

Research is being carried with the University of Edinburgh to establish the impact of new school buildings on educational attainment.

3.5.4 Shawfair

The Shawfair development with its new Rail link provides a major incentive for house builders, employers' retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.

3.5.5 Borders Rail

Regeneration of priority communities of Midlothian through which the railway passes.

The line provides ready access to education/training at Edinburgh College, Borders College and Queen Margaret University with improved access to the labour markets in Edinburgh and the Borders. Also an opportunity to encourage sustainable travel by residents of major new housing developments in the rail corridor. Ensuring Midlothian secures appropriate levels of Blueprint funding from the multi-agency Borders Rail 'Blueprint' funding group.

3.5.6 Easter Bush

Fast growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM.

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

4.1 Resource

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

4.2 Digital

None

4.3 Risk

The Strategic Risk Profile seeks to articulate the significant issues, risks and opportunities facing the Council at a specific point in time. The Risks reported are generally those that impact on all parts of the Council and the strategic priorities of the Council. It appears that the presence of risk is understood and action is being taken to manage and respond to risk on an ongoing basis by officers.

The risks referred to in this report are set out within the Council's Strategic Risk Profile, attached as Appendix 1 and Appendix 2.

4.4 Ensuring Equalities

There are no direct equalities issues arising from this report.

4.5 Additional Report Implications

Appendix A – Additional Report Implications

Appendix B1 – Strategic Risk Profile Quarter 4 2019/20

Appendix B2 – Strategic Risk Profile Quarter 1 2020/21

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The Council's commitment to best value and securing continuous improvement can best be delivered when decisions are made against a backdrop of understanding the risks and opportunities before an organisation. This report seeks to provide an overview of the Strategic Issues, Risks and Opportunities before the Council to inform current and future decision making.

A.5 Involving Communities and Other Stakeholders

This Strategic Risk Profile report has been compile 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 Strategic Issues, Risks and Opportunities before the Council 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 Issues, Risks and Opportunities.

Strategic Risk Profile

Quarter 4 2019/20












ISSUES .

COVID 19


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	<p>Risk cause: COVID 19 Virus (Initially reported in China in late December 2019, reports of cases in counties beyond China during January 2020.</p> <p>Risk event: Potential for Virus to spread beyond China..</p> <p>Risk effect: Potential for widespread impacts with the risk of significant levels of community transmission leading to Government lock-down similar to that in China and Italy. Delivery of critical services in new ways out-with the workplace of socially distanced requiring additional financial resourcing. National lockdown measures to limit and control spread impact on income generating services.</p> <p>Pace of guidance change and expectation of delivery. PPE at care homes and NHS, care at home standardised and access were consistent across all settings.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<ol style="list-style-type: none"> 1. Cross Service COVID 19 tactical group established on 20 February 2020. 2. Services tasked to review Business Continuity arrangements. 3. CIMT established to take Strategic approach to managing response to COVID 19. 4. Potentially vulnerable groups of employees directed to work from home/take special leave to protect themselves with effect from 17 March 2020 with immediate effect. 5. UK Government announcement of lockdown for all non-essential work from 24 March. All non-essential service employees were sent home in line with government lockdown measures. Council formally moved to critical service delivery only. 6. COVID-19 guidance issued to children's services, education and CLL around how they would continue to maintain contact with children and young people who were deemed to be at risk. 7. Schools closed on 23 March by Education, direction of Scottish Government. Renewed directions issued every 20 days. 8. Keeping employees briefed and supported through the Chief Executives daily staff briefings. (e-mailed to all employees through combination of work and personal e-mail addresses) 9. Team conference call/Zoom and Microsoft Team meetings, team what's app groups, phone calls to prevent employees becoming isolated. 10. Council website kept up-to date, providing details of which services were operating and any changes on how to access services. 11. Remote working where possible became the normal, with digital kit provided to support this for critical activities as required. 12. Standing order 19.2 utilised for key decisions and supported by 	5	5	


			weekly group leaders meeting. 13. Financial governance overview presented to CIMT.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.10.01	Government guidance on social distancing for people to maintain at least 2m apart from each other where out-with households.	Q4 20/21: Service operating during lockdown Implemented Social distancing measures for those services required to continue operating.	Executive Director Place; Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	30-Sep-2020	
SRP.IA.10.02	Prepare for potential increased mortality rate.	Q4 20/21: Mortuary arrangement were revised to ensure in the event existing levels of provision were exceeded additional capacity was available.	Chief Officer Place	31-Apr-2020	
SRP.IA.10.03	Delivering Service to those experiencing COVID 19 symptoms	Q4 20/21: Activities involving working directly with someone with COVID 19 were risk assessed by Services and Safe Systems of Work prepared.	Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	31-Mar-2021	
SRP.IA.10.04	Managing potential for COVID 19 spread within the workplace.	Q4 20/21: Services carried out workplace risk assessments, in order to identify how to protect employees with a combination of social distancing, surface cleaning and good hand hygiene in line with government guidance. Cohorting of teams to ensure ability to continue to deliver if one team had an outbreak.	Executive Director Place; Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	30-Sep-2020	
SRP.IA.10.05	Remote working set up	Q4 20/21: Employees set up to work from home with support from Digital Services.	Chief Officer Corporate Solutions	30-May-2020	
SRP.IA.10.06	Redeployment of employees from non-critical services to critical services	Q4 20/21: HR gathered details of employees who could be redeployed and into which areas, for those critical services to access for staff support as required. CLL staff supported resilience work within communities ensuring that our most vulnerable citizens had access to food, medication and offering support to those who were socially isolated.	Executive Director Place; Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	30-May-2020	
SRP.IA.10.07	Economic Recovery Strategy	Q4 20/21: Midlothian Council identified the need to develop a new Economic Renewal Strategy, setting out an approach to manage the transition from lockdown and planning for the longer term challenges the local economy will face.	Chief Officer Place	23-Jun-2020	
SRP.IA.10.10	Shielding support	Q4 20/21: Arrangements developed to contact 3,300 people across Midlothian who were shielding to confirm support requirements and ensuring support delivered.	Head of Adult and Social Care	31-Jul-2020	


SRP.IA.10.12	Hubs	Q4 20/21: Hubs set up to operate from the point schools closed during the academic session.	Executive Director Place; Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	9-Aug-2020	
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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 change programme not achieving the savings against agreed timescales. The Change Programme does not achieve the projected savings</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including the Delivering Excellence framework. Council Resources directed to ensuring the on going delivery of critical services from March 2020.</p> <p>Risk effect Slow or delayed proposals/savings arising from service redesign, requiring the adoption of recover plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p> <p>Prioritising of resources has inevitability lead to impacts on delivery of savings programmes planned for 2020/21.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place; Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> 1. Change Programme including Delivering Excellence framework which addresses projected budget shortfalls. Got consolidated Change Programme following approval of 2020/21 budget. In arriving at the consolidated programme, we have removed savings proposals which were undeliverable or not able to achieve the savings indicated. 2. Within the 2020/21 budget there is a £400,000 risk adjustment to reduce the impact of shortfall in savings impacting on the general reserve. 3. The 2020/21 budget provides £1.250 million to fund transformation at pace to allow services to resource the capability and capacity to deliver change using existing Delivering Excellence management tools. 4. Action was taken for 2020/21 budget to ensure that the financial impact of change proposals is verified and that evidence is available to support delivery in the prescribed timescales. 5. Specific Corporate Management Team meetings which focus on financial monitoring reviewing performance against budget and progress towards delivery of savings targets. 	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 19/20: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	28-Feb-2021	


SRP.IR.07 Financial Sustainability


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p>Risk cause Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Rising customer expectations</p> <p>Risk event Change Programme and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps</p> <p>Risk effect A shortfall and or slow or delayed savings arising from the Change Programme. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	Chief Officer Corporate Solutions;	<p>1. There is an approved Capital Strategy and Reserve Strategy in place</p> <p>2. There is an approved budget for 2020/21</p> <p>3. There are arrangements in place to monitor financial performance including quarterly reporting to Council and 6 weekly reporting to BTB through the change dashboards. The Q4 position reported an underspend of £102,000.</p> <p>4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p> <p>5. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth.</p>	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 19/20: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	28-Feb-2020	
SRP.RA-02.04	Financial discipline Delivery of services within approved budget	Q4 19/20: The key message of ensuring robust financial discipline in all areas of the Council has resulted in an improved financial position at the close of quarter 4. The Chief Executive has emphasised the need for much needed control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate.	Chief Executive	31-Mar-2020	

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: Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Population growth and time lag to fund pressures on public services. Policy decisions by UK & Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand Potential Economic shock arising from UK departure from EU Rising customer expectations</p> <p>Risk event: Reducing grant settlement. Policies decisions at Government level not fully funded to Council's. Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates.</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</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> 1. Development of Medium Term Financial Strategy. 2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 3. Capital and Reserves Strategies in place. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions. 	3	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 19/20: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	28-Feb-2020	


SRP.RA-02.04	Capture cost impacts associated with COVID 19 response	Q4 19/20: All Services instructed to clearly capture business costs associated with responding to impact of COVID 19 in continuing to deliver Critical Services.	Chief Officer Corporate Solutions		
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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 A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area Reduced resources Leadership fit for the future Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision</p> <p>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>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>1. Financial Strategy and Change Programme 2. Leadership from all elected members, Executive Team and Senior Leadership Group. 2. Appropriated governance in place across the Change Programme. 3. Links between Change Programme and Workforce Plans 4. Resilience planning. 5. Senior Leadership Group regularly considering Change Programme and budget position. 6. Capacity to deliver change.</p>	4	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q4 19/20: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	28-Feb-2021	

SRP.RR.03 Legal and Regulatory Compliance


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p>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; Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>1. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required.</p> <p>2. Annual Assurance Statement.</p> <p>3. Internal Audit testing of internal controls as part of risk based audit plan.</p> <p>4. External Audit.</p> <p>5. Range of external inspection .</p> <p>6. Local Scrutiny Plan</p> <p>BTSG oversight of new legislation</p>	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.01	Legal & Regulatory Compliance	Q4 19/20: Executive Directors/ Chief Operating Officers ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-Mar-2020	

SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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</p> <p>Risk event Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change</p> <p>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: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>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. Implementation of the Wellness@Midlothian agenda including service-level wellness plans. 2. Implementation of Mental Health Framework. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Range of related policies and management guidance. 6. Development of progressive People Policies.</p> <p>Performance 1. Council-side and Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Reviewed Code of Conduct. 4. Employee engagement sessions commencing in January following publication of the staff survey results. 5. Continued re-enforcement of all People Policies involving various communication methods. 6. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc.</p> <p>Organisational Change 1. Revised Policy for Organisational Change including strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful redeployment. 3. Agreed protocol for accessing the Redeployment Fund.</p> <p>Conduct 1. Resolution Policy encourages early intervention in workplace issues. 2. Professional standards and values to be re-enforced in structured format.</p>	3	4	


			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.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04	Revisions to Service Workforce Plans	Q4 19/20: Revision to Service Workforce Plans and Action Plans are required as set out in internal audit report. Action is required in the following areas: • analysis of future workforce requirements and how this related to the Council's strategic objectives including financial priorities; • gap analysis and gap closing strategies; and • performance measures and target setting for evaluation of success in delivering the Workforce Plan.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	30-Sep-2020	


SRP.RR.06 Information Security

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	Risk cause General Data Protection Regulation formulated by the European Commission. Risk event The Regulation implemented on 25 May 2018. Risk effect The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros whichever is greater.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate	1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i) 5. General Data Protection Regulation Project plan implemented with close report. 6. Public sector cyber security compliance 7. Implementing Scottish Government Cyber Security Action Plan 8. Mandatory e-learning for all employees and elected members.	3	5	

		Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.06.05	Information Security response to COVID 19	Q4 2019/20: As COVID19 restrictions took effect new guidance was rapidly produced to support secure remote working and privacy impact assessments were conducted to manage the GDPR risks of new processes and activities during the pandemic.	Chief Officer Place	31-Apr-2020	



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>	Joint Director Health and Social Work; Head of Adult and Social Care; Head of Primary Care and Older People;	1. Care at Home improvement action plan in place and near compaction 2. Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level 3. New Framework agreement in place with significant improvement in quality from Providers 4. Flow management planning in development to maximise Care at Home capacity going forward 5. Weekly provider meetings in place 6. Additional locum team members recruited to for contingency cover 7. New Leadership model in place 8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place	3	4	

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
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SRP.RR.08	<p>Risk cause Many of the assets the Council own by their nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles & 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 Officer Corporate Solutions; Chief Officer Place	<p>1. There is provision in place within the capital plan for investment in the asset base.</p> <p>2. Asset register</p> <p>3. Conditional Survey</p> <p>4. Understanding of future asset needs</p> <p>5. Asset Strategy:</p> <ul style="list-style-type: none"> . Roads . Land . Fleet . Digital Service Network . Digital Service hardware <p>6. Capital program - investment in estate.</p> <p>7. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users.</p> <p>8. Introduction of Capital Plan and Asset Management Board</p>	4	5	
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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>Q4 19/20: Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys.</p> <p>Continuing to develop property asset management plans, priority spend on basis of independent surveys.</p> <p>As result of Government guidance on Construction all summer works postponed resulting in the need for rescheduling of planned capital works.</p>	Chief Officer Place	31-Mar-2021	
SRP.RA.08.04	Reviewed Roads Asset Management Strategy	<p>Q4 19/20: Roads Asset Strategy, work progressing to migrate to version 4. Information to be taken to capital board on future need for next 5 years.</p> <p>Work to take forward the Roads Asset Strategy will form a fundamental component of restructured services priorities.</p>	Chief Officer Place	31-Mar-2021	


SRP.RR.09 Emergency Planning and Business Continuity Management

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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SRP.RR.09	Risk cause The Council not preparing Emergency Plans and testing arrangements to respond to Civil Contingencies Incidents 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. 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	Chief Officer Place	Potential sub risks include:- 01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Contingency Planning Group support development, peer review and roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations. 04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.	3	4	
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	Q4 19/20: Contingency Improvement Plan drafted and due to be shared with newly formed Risk and Resilience Group ahead of reporting to CMT for approval. Procurement process underway to source technology systems to support the development and interrogation of Business Continuity application during an incident.	Chief Officer Place	31-Mar-2021	


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	Risk cause Code of conduct for Members and employees actions falling short of International Standards. Risk event Failure in openness, accountability, clarity. Risk effect Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life	Legal Services Manager	Potential sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non-compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement. 05 Standing Orders 06 Scheme of Administration	3	4	


SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	<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 align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> 1. Single Midlothian Plan providing overarching direction 2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in December 2018, positive feedback with allocated funding. 5. Community Safety Strategic assessment completed. 6. Procurement Strategy 7. Capital Strategy 8. Integrated Joint Board (IJB) Plan 9. IJB Strategic needs assessment 	2	3	


SRP.RR.12 Internal Control Environment


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p>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 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</p> <p>Risk effect Waste and loss Risks over managed with risk controls costing more than</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health	<ol style="list-style-type: none"> 1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy. 5. Internal and external assurance. 6. E-learning for staff to complete mandatory training for fraud awareness. 	3	3	

	the potential loss being managed. Increased opportunity for fraud or financial loss has direct impact on management information. Has adverse effect on service performance	and Social Work; Head of Primary Care and Older People; Chief Officer Place				
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.12.0 2	Financial governance in response to COVID 19	Q4 19/20: Financial overview report provided to CMT on financial governance and internal control since onset of pandemic.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-Oct-2020	

SRP.RR.13 Climate Change



Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.13	Risk cause Council Services not adequately engaged, resourced or directed to fulfil the requirements of the Climate Change Act Risk event Council Services not responding to the Climate Change Act with sufficient pace. Risk effect Council failing to meet its obligation under the Climate Change (Scotland) Act 2009 and incurring the associated reputational damage.	Executive Director Children, Young People and Partnerships;	1. Statutory requirement to report on compliance with the climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 4. Implementation of provisions of Internal Audit report approved by Audit Committee 1 May 2018.	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.02	Climate Change Strategy	Q4 19/20: The Council declared a climate emergency at its meeting in December 2019. The Council are developing a new Climate Change Strategy in response to the impacts associated with climate change and the organisations ability to impact the same.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	30 - Aug-2020	


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 the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p>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</p>	Chief Officer Children's Services;	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 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 	5	4	


	<p>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. We have request an extension for Parts B, C & D of the last Section 21 to April 2020, which has been granted.</p>		<p>retrieval when requested by the Inquiry.</p> <p>The Project Team have established a Project Plan covering:</p> <p>4. Ascertaining the succession and insurance position in relation to potential historic child abuse claims.</p> <p>5. Ascertaining and agreeing Midlothian Council's legal position/ approach in dealing with the potential historic child abuse claims.</p> <p>6. Identifying the need for guidance, protocol, templates etc should/ if any claims be made against the council.</p> <p>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.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 1	Implementation of Project Plan	<p>Q4 19/20: A project team in place with project Plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan.</p> <p>During lockdown a further extension was requested as the workers assigned to the abuse inquiry were not deemed critical workers therefore were not able to attend work.</p>	Chief Officer Children's Services;	31-Mar-2021	
SRP.RA.14.0 2	Foster Care Case Study	<p>Q4 19/20: In August 2019 all 32 Local Authorities received a Section 21 in relation to 'Foster Care Case Study'. This is a significant piece of work which spans from 1930 to date requesting information around funding of foster carers, legal status/responsibility/ethos, children's background experience who were placed in foster care/ information on foster carers and the culture of the organisation. There is on-going liaison with other local authorities and legal services around progressing this request which is now due 30th September 2020. Further work is ongoing around securing experienced and professional staff to undertake this work.</p>	Chief Officer Children's Services;	30-Sep-2020	


SRP.RR.14.2 Scottish Child Abuse Claims Project

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	<p>Risk Cause: Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made</p>	Chief Officer Children's Services;	<p>1. Agreed further update to Council to keep them abreast of the current situation and potential implications around staffing and future financial costs.</p> <p>2. The Qualified One Way Costs Shifting (QOCS) is a change in legislation that will mean we cannot recover costs unless the pursuer</p>	4	5	

	<p>within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964)</p> <p>Risk Event: Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The Claims Working Group has established a process ('Claims Procedure') for dealing with the claims.</p> <p>Risk Effect: There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims</p>		<p>has made a fraudulent claim or has been ;manifestly unreasonable' This basically takes away all risk for pursuers so if the they lose they won't have to worry about paying the Council's costs. At the time of writing there remains no date for implementation of this piece of legislation.</p> <p>SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.2-3	Assess need to make financial provision	Q4 19/20: Assess the ongoing financial impact of compensation/redress. Compensation/redress scheme has been developed and the funding of claims is understood an assessment on the potential financial impact should be carried out, supported by the Council's finance team. The work around the Scottish Governments Redress Bill is ongoing, developments in this area are being monitored.	Chief Officer Children's Services;	31-Mar-2021	

SRP.RR.16 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p>Risk cause Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increased by 100% between 2014 and 2039.</p> <p>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</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary	<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 Strategy 6. Housing Strategy 7. Joint needs assessment used to develop - IJB Strategic Plan 8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 9. City deal provides the opportunity to support inclusive growth. 	3	4	

	population increase placing additional demand on infrastructure including GP services, district nursing service, social work etc. Increased pressure on infrastructure, services e.g. waste collection and growth of road network as new development roads are adopted.	Care and Older People; Chief Officer Place				
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SRP.RR.17 UK Decision to leave the EU


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	<p>Risk cause UK vote to leave the European Union</p> <p>Risk event UK leaving the European Union</p> <p>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 further economic growth.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>01 – EU Exit Working Group</p> <p>02 – Taking a risk management approach to identifying and assessing anticipated impacts</p> <p>03 – Working with a range of national and local bodies to inform preparatory arrangements.</p> <p>04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.</p>	3	4	

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>	Chief Executive; Executive Director Children,	<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</p>	3	5	


	<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>	<p>Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>3 - Comprehensive range of Health & Safety Management & Assessment based development opportunities for line managers 4 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 5 – Comprehensive training programme in place to support those with responsibility for managing health and safety.</p>			
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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. . 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>Risk effect</p>	<p>Executive Director Children, Young People and Partnerships; Chief Officer Place</p>	<p>1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy</p>	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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SRP.RR.21 Cyber Security


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	<p>Risk Cause: Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p>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.</p> <p>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 organisational measures are deemed insufficient.</p> <p>Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network 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</p>	3	5	

OPPORTUNITIES .

SRP.OP.01 Shawfair


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for house-builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> 1. Shawfair Development Group. 2. Legal agreement with developers to secure developer contributions (Section 75) 3. Plan for entire community: 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 7. New Primary schools 	5	4	


SRP.OP.02 Borders Rail

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Passenger numbers after three years of operation are above projections. The railway has been, and continues to be a catalyst for economic development, access to training and labour markets, tourism growth, environmental improvements must notably in town centres, and access to the countryside.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> 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	


SRP.OP.03 Easter Bush - Penicuik

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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SRP.OP.03	One of Midlothian's largest and most significant employment areas. Fast Growing opportunities in Science Technology Engineering and Mathematics (STEM) with opportunities to link with education. Partnership links to schools and university sector at the 'Bush' to promote STEM. Need to secure long-term strategic road access to ensure continued growth.	Executive Director Children, Young People and Partnerships;	1. Planning in place around creating Secondary Schools as centres for excellence linked to specialisms including Science Technology Engineering and Mathematics (STEM). 2. Land allocated for expansion. 3. Midlothian Science Zone. 4. City Deal funding to provide for growth and strategic road access.	5	4	
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A1	A702 Trunk Road Improvements	Q4 19/20: City Deal business case for Easter Bush expansion includes A702 road scheme to improve long term strategic access. Through liaison with Edinburgh University and Transport Scotland within the context of City Deal.	Executive Director Children, Young People and Partnerships;	31-Mar-2021	

SRP.OP.04 City Deal


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


SRP.OP.05 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	Midlothian Council has been identified as the fastest growing Council's in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome. This growth creates the opportunity to meet the housing need with 25% of new homes being built in the affordable housing bracket, in addition to the expansion in Council House building. This construction will directly support	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief	1. Community Planning Partnership 2. The Single Midlothian Plan 3. Strategic Housing Investment Plan (SHIP)	5	5	

	employment in construction and will see a steady increase in the volume of Council tax received over time.	Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place				
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SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system for all Children and young people in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty and equity of access to enriched learning experiences.	Executive Director Children, Young People and Partnerships;	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. A701 High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	Q4 19/20: Funding approved by Scottish government to create a STEM centre as a replacement for Beeslack High school. Research is being carried out with the University of Edinburgh to establish the impact of new school buildings on educational attainment.	Executive Director Children, Young People and Partnerships;	31-Aug-2023	

Strategic Risk Profile

Quarter 1 2020/21

















ISSUES .

COVID 19


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.10	<p>Risk cause: COVID 19 Virus (Initially reported in China in late December 2019, reports of cases in counties beyond China during January 2020.</p> <p>Risk event: Potential for Virus to spread beyond China..</p> <p>Risk effect: Potential for widespread impacts with the risk of significant levels of community transmission leading to Government lock-down similar to that in China and Italy. Delivery of critical services in new ways out-with the workplace of socially distanced requiring additional financial resourcing. National lockdown measures to limit and control spread impact on income generating services.</p> <p>Pace of guidance change and expectation of delivery. PPE at care homes and NHS, care at home standardised and access were consistent across all settings.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<ol style="list-style-type: none"> 1. Cross Service COVID 19 tactical group established on 20 February 2020. 2. Services tasked to review Business Continuity arrangements. 3. CIMT established to take Strategic approach to managing response to COVID 19. 4. Potentially vulnerable groups of employees directed to work from home/take special leave to protect themselves with effect from 17 March 2020 with immediate effect. 5. UK Government announcement of lockdown for all non-essential work from 24 March,. All non-essential service employees were sent home in line with government lockdown measures. Council formally moved to critical service delivery only. 6. COVID-19 guidance issued to children's services, education and CLL around how they would continue to maintain contact with children and young people who were deemed to be at risk. 7. Schools closed on 23 March by Education, direction of Scottish Government. Renewed directions issued every 20 days. 8. Keeping employees briefed and supported through the Chief Executives daily staff briefings. (e-mailed to all employees through combination of work and personal e-mail addresses) 9. Team conference call/Zoom and Microsoft Team meetings, team what's app groups, phone calls to prevent employees becoming isolated. 10. Council website kept up-to date, providing details of which services were operating and any changes on how to access services. 11. Remote working where possible became the normal, with digital kit provided to support this for critical activities as required. 12. Standing order 19.2 utilised for key decisions and supported by 	5	5	

			weekly group leaders meeting. 13. Financial governance overview presented to CIMT.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.IA.10.01	Government guidance on social distancing for people to maintain at least 2m apart from each other where out-with households.	Q1 20/21: Service operating during lockdown Implemented Social distancing measures for those services required to continue operating.	Executive Director Place; Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	30-Sep-2020	
SRP.IA.10.02	Prepare for potential increased mortality rate.	Q1 20/21: Mortuary arrangement were revised to ensure in the event existing levels of provision were exceeded additional capacity was available.	Chief Officer Place	31-Apr-2020	
SRP.IA.10.03	Delivering Service to those experiencing COVID 19 symptoms	Q1 20/21: Activities involving working directly with someone with COVID 19 were risk assessed by Services and Safe Systems of Work prepared.	Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	31-Mar-2021	
SRP.IA.10.04	Managing potential for COVID 19 spread within the workplace.	Q1 20/21: Services carried out workplace risk assessments, in order to identify how to protect employees with a combination of social distancing, surface cleaning and good hand hygiene in line with government guidance. Cohorting of teams to ensure ability to continue to deliver if one team had an outbreak.	Executive Director Place; Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	30-Sep-2020	
SRP.IA.10.05	Remote working set up	Q1 20/21: Employees set up to work from home with support from Digital Services.	Chief Officer Corporate Solutions	30-May-2020	
SRP.IA.10.06	Redeployment of employees from non-critical services to critical services	Q1 20/21: HR gathered details of employees who could be redeployed and into which areas, for those critical services to access for staff support as required. CLL staff supported resilience work within communities ensuring that our most vulnerable citizens had access to food, medication and offering support to those who were socially isolated.	Executive Director Place; Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	30-May-2020	
SRP.IA.10.07	Economic Recovery Strategy	Q1 20/21: Midlothian Council has developed and approved a new Economic Renewal Strategy, setting out its ambitious approach to managing the transition from lockdown and planning for the longer term challenges the local economy will face.	Chief Officer Place	23-Jun-2020	
SRP.IA.10.08	Response to Scottish Government phased recovery plan	Q1 20/21: CIMT provided strategic direction on service re-engagement in response to government phasing plan, with a key focus on grasping the opportunities to work more effectively and efficiently taking advantage of many of the strides forward taken to work	Chief Executive; Executive Director Place; Executive	25-Jun-2020	

		differently during the COVID pandemic response phase. Council approved route map on 25 June 2020.	Director Children, Young People and Partnerships; Joint Director Health and Social Work		
SRP.IA.10.09	Vulnerable children young people and families gate keeping group	Q1 20/21: Group set up to support those young people and families who were vulnerable or who became vulnerable during the lockdown period. Public Protection meetings involving senior managers happened on a weekly basis to ensure those who were deemed at risk of harm within our communities were being contacted/seen on regular basis.	Chief Officer Children's Services	31-Jul-2020	
SRP.IA.10.10	Shielding support	Q1 20/21: Contact with over 3,300 people across Midlothian who were shielding to confirm support requirements and ensuring support delivered.	Head of Adult and Social Care	31-Jul-2020	
SRP.IA.10.11	Food distribution	Q1 20/21: Funding provided to Voluntary groups and community councils to support those living within Midlothian Communities to access food during lockdown. Internal audit report to ensure funding was applied successfully. Free school meal provision continued during lockdown and summer holiday period to ensure no family went without food.	Head of Adult and Social Care	31-Jul-2020	
SRP.IA.10.12	Hubs	Q1 20/21: Hubs set up to operate from the point schools closed during the academic session. Summer hubs set up by education/children's services. They were operated and registered by out of school care clubs with support from sport and leisure and communities teams.	Executive Director Place; Executive Director Children, Young People and Partnerships; Joint Director Health and Social Work	9-Aug-2020	
SRP.IA.10.13	School re-start plan	Q1 20/21: Additional teaching staff appointed to support a smooth transition to the start of the new academic year during quarter 1 based on planning assumption derived from guidance from Scottish government at Q1.	Executive Director Children, Young People and Partnerships	11-Aug-2020	
SRP.IA.10.14	Financial impact	Q1 20/21: Update report presented to Council on 25 June 2020.	Chief Officer Corporate Solutions	25-Jun-2020	


SRP.IR.02 The Change Programme

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.02	Risk cause The pace of change programme not achieving the savings against agreed timescales. The Change Programme does not achieve the projected	Chief Executive; Executive Director Children, Young People	1. Change Programme including Delivering Excellence framework which addresses projected budget shortfalls. Got consolidated Change Programme following approval of	4	4	




	<p>savings</p> <p>Risk event Delayed progress in applying various strands of the Change Programme including the Delivering Excellence framework.</p> <p>Risk effect Slow or delayed proposals/savings arising from service redesign, requiring the adoption of recover plans or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.</p>	<p>and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>2020/21 budget. In arriving at the consolidated programme, we have removed savings proposals which were undeliverable or not able to achieve the savings indicated.</p> <p>2. Within the 2020/21 budget there is a £400,000 risk adjustment to reduce the impact of shortfall in savings impacting on the general reserve.</p> <p>3. The 2020/21 budget provides £1.250 million to fund transformation at pace to allow services to resource the capability and capacity to deliver change using existing Delivering Excellence management tools.</p> <p>4. Action was taken for 2020/21 budget to ensure that the financial impact of change proposals is verified and that evidence is available to support delivery in the prescribed timescales.</p>			
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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.	Q1 20/21: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	28-Feb2021	
SRP.RA-02.05	Update to CMT and Council on impact of Pandemic on delivery of the change programme.	Q1 20/21: Quarter 1 period monitoring included an update on the impact of the Pandemic. delivery against the planned change programme.	Chief Officer Corporate Solutions	30-June-2020	

SRP.IR.07 Financial Sustainability


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.IR.07	<p>Risk cause Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Rising customer expectations</p> <p>Risk event Change Programme and the flexibility available to Councils as part of the grant settlement does not address future years projected budget gaps COVID has created Significant divergence of budget for a range of services.</p> <p>Risk effect</p>	Chief Officer Corporate Solutions;	<p>1. There is an approved Capital Strategy and Reserve Strategy in place</p> <p>2. There is an approved budget for 2020/21</p> <p>3. There are arrangements in place to monitor financial performance including quarterly reporting to Council and 6 weekly reporting to BTB through the change dashboards..</p> <p>4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils.</p> <p>5. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the</p>	3	4	


	A shortfall and or slow or delayed savings arising from the Change Programme. Potentially further eroding reserves or requiring short term service reductions which impact on the Council's ability to deliver against its priorities.		delivery on assets required to support capital growth.			
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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.	Q1 20/21: Council approved the 2020/21 budget as part of the MTFS on 11 Feb 2020 The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	28-Feb-2021	
SRP.RA-02.04	Financial discipline Delivery of services within approved budget	Q1 20/21: The Chief Executive has emphasised the need for much needed control and underlined the benefit to the organisation of such an approach. Enhanced monitoring arrangements have been put in place for the Place Directorate.	Chief Executive	31-Mar-2021	
SRP.RA-02.06	Resourcing impact of COVID response	Q1 20/21: Working with services to capture details of additional costs, working with Cosla to secure additional grant funding. Report presented to CMT and Leaders on financial governance during the pandemic in April. Financial update report taken to Council in June.	Chief Executive	31-Mar-2021	


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: Reduction in long term funding from Scottish Government Increasing ageing population of over 75's Increasing population of 0-15 age group Population growth and time lag to fund pressures on public services. Policy decisions by UK & Scottish Governments which are not fully funded. Non or delayed savings from planned activities. Future year pay award settlements and implications of living wage increases. Inflation, interest rates, tax, income levels, service demand Potential Economic shock arising from UK departure from EU Rising customer expectations</p> <p>Risk event: Reducing grant settlement. Policies decisions at Government level not fully funded to Council's. Securing the extent of change required in order to deliver financial sustainability and a change program that recognises the size of the challenge. Cost pressures exceeding budget estimates. Uncertainty around service delivery models and income streams and prospects for public finances associated with COVID impact and recovery.</p> <p>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</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<ol style="list-style-type: none"> 1. Development of Medium Term Financial Strategy. 2. Maintaining a level of reserves to deal with unforeseen or one off cost pressures. 3. Capital and Reserves Strategies in place. 4. Working through COSLA to influence government spending decisions to influence Scottish Government's budget allocation to Councils. 5. Implement a lobbying strategy with government to recognise the unique position Midlothian Council is in. 6. Best Value Audit report actions. 	3	4	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q1 19/20: The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	28-Feb-2021	


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 A MTFS that doesn't address the projected budget shortfall or contextual factors relating to the Midlothian area Reduced resources Leadership fit for the future Lack of clarity or clear compelling vision for the future Delay or shortfall in securing savings Lack of or not securing transformational change in service provision</p> <p>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>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>1. Financial Strategy and Change Programme 2. Leadership from all elected members, Executive Team and Senior Leadership Group. 2. Appropriated governance in place across the Change Programme. 3. Links between Change Programme and Workforce Plans 4. Resilience planning. 5. Senior Leadership Group regularly considering Change Programme and budget position. 6. Capacity to deliver change.</p>	4	4	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA-02.03	Develop Medium Term Financial Strategy with greater oversight, clearer responsibility and accountability.	Q1 19/20: The cross party Business Transformation Steering Group continues to lead on the next phase of development of the Medium Term Financial Strategy, namely to identify measures to address the remaining budget gaps for 2021/22 and 2022/23.	Chief Executive	28-Feb-2021	


SRP.RR.03 Legal and Regulatory Compliance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.03	<p>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: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>1. Directors and Heads of Service responsible for identifying applicable legislation and propose Council or Service responses to CMT and Cabinet/Council as required.</p> <p>2. Annual Assurance Statement.</p> <p>3. Internal Audit testing of internal controls as part of risk based audit plan.</p> <p>4. External Audit.</p> <p>5. Range of external inspection.</p> <p>6. Local Scrutiny Plan</p> <p>BTSG oversight of new legislation</p>	3	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.03.01	Legal & Regulatory Compliance	Q1 20/21: Chief Officers and Heads of Service ensuring compliance with statutory obligations and making CMT, Cabinet/Council aware as required.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief	31-Mar-2021	

			Officer Place		
SRP.RA.03.02	Rights of the Child Bill	Q1 20/21: Scotland is set to become the first country in the UK to directly incorporate the UN Convention on the Rights of the Child into domestic law. The Scottish Governments new bill on the rights of the child is expected to have far reaching implications for public bodies. As a result the Council are monitoring progress of this to enable planning and any associated response to the new legislation with the bill as it develops.	Director Children, Young People and Partnerships; Chief Officer Children's Services	31-Mar-2021	


SRP.RR.04 Employee performance

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
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</p> <p>Risk event Employees not engaged/consulted as part of organisational transformation. Experienced employees leaving the organisation Unacceptable behaviours demonstrated by employees Stated organisational culture not consistently reinforced by managers Poor employee performance will stifle transformational change</p> <p>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</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>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. Implementation of the Wellness@Midlothian agenda including service-level wellness plans. 2. Implementation of Mental Health Framework. 3. Maintaining the Healthy Working Lives Gold Award. 4. Proactive use of Occupational Health, Midlothian Physiotherapy, Employee Assistance Programme and the Workplace Chaplaincy Service. 5. Range of related policies and management guidance. 6. Development of progressive People Policies.</p> <p>Performance 1. Council-side and Service-level workforce plans. 2. Structured, robust, well established 'Making Performance Matter' Framework where expected standards of behaviour and Council values are re-enforced. 3. Reviewed Code of Conduct. 4. Employee engagement sessions commencing in January following publication of the staff survey results. 5. Continued re-enforcement of all People Policies involving various communication methods. 6. Development of a suite of management information to ensure Service Managers are informed e.g. turnover, absence levels/reasons etc.</p> <p>Organisational Change 1. Revised Policy for Organisational Change including strong emphasis on early engagement of employees. 2. Redeployment Procedure to ensure maximum chance of successful</p>	3	4	

	,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		redeployment. 3. Agreed protocol for accessing the Redeployment Fund. Conduct 1. Resolution Policy encourages early intervention in workplace issues. 2. Professional standards and values to be re-enforced in structured format. 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.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.02.04	Revisions to Service Workforce Plans	Q1 20/21: Revision to Service Workforce Plans and Action Plans are required as set out in internal audit report. Action is required in the following areas: • analysis of future workforce requirements and how this related to the Council's strategic objectives including financial priorities; • gap analysis and gap closing strategies; and • performance measures and target setting for evaluation of success in delivering the Workforce Plan.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	30-Sep-2020	

SRP.RR.06 Information Security


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.06	Risk cause General Data Protection Regulation formulated by the European Commission. Risk event The Regulation implemented on 25 May 2018.	Chief Executive; Executive Director Children, Young People and Partnerships;	1. Information Management Group 2. Public Sector Network Compliance. 3. Meta Compliance 4. Information Management, awareness raising program (Private-i) 5. General Data Protection Regulation Project plan implemented with	3	5	

	Risk effect The Regulations will bring about a number of requirements on the Council including mandatory reporting of all data breaches, appointment of a Data Protection Officer and the potential for fines ranging to 4% of turnover or 20million Euros whichever is greater.	Executive Director Place; Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	close report. 6. Public sector cyber security compliance 7. Implementing Scottish Government Cyber Security Action Plan 8. Mandatory e-learning for all employees and elected members.			
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SRP.RR.07 Care at Home

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.07	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. Risk event Capacity of Community Support outstripped by demand 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.	Joint Director Health and Social Work; Head of Adult and Social Care; Head of Primary Care and Older People;	1. Care at Home improvement action plan in place and near completion 2. Appointment to Team Lead posts to support Complex care to enhance local leadership at operational level 3. New Framework agreement in place with significant improvement in quality from Providers 4. Flow management planning in development to maximise Care at Home capacity going forward 5. Weekly provider meetings in place 6. Additional locum team members recruited to for contingency cover 7. New Leadership model in place 8. Daily discharge meeting with Multidisciplinary and Multi-agency team planning to plan and coordinate discharge to ensure care at home support in place	3	4	


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	Risk cause Many of the assets the Council own by their nature are in a position of on going deterioration through their normal use, e.g. roads - normal wear and tear, street lights and vehicles & buildings used to deliver services.	Chief Officer Corporate Solutions; Chief Officer Place	1. There is provision in place within the capital plan for investment in the asset base. 2. Asset register 3. Conditional Survey 4. Understanding of future asset needs	4	5	


	<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>		<p>5. Asset Strategy:</p> <ul style="list-style-type: none"> . Roads . Land . Fleet . Digital Service Network . Digital Service hardware <p>6. Capital program - investment in estate.</p> <p>7. On going monitoring of properties by: Maintenance Surveyors, Facilities Management and Property Users.</p> <p>8. Introduction of Capital Plan and Asset Management Board</p>			
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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 20/21: Prioritise needs of assets against available spend. On-going need to assess, needs of assets, informed by conditional surveys.</p> <p>Continuing to develop property asset management plans, priority spend on basis of independent surveys.</p> <p>As result of Government guidance on Construction all summer works postponed resulting in the need for rescheduling of planned capital works.</p>	Chief Officer Place	31-Mar-2021	
SRP.RA.08.04	Reviewed Roads Asset Management Strategy	<p>Q1 20/21: Roads Asset Strategy, work progressing to migrate to version 4. Information to be taken to capital board on future need for next 5 years.</p> <p>Work to take forward the Roads Asset Strategy will form a fundamental component of restructured services priorities.</p>	Chief Officer Place	31-Mar-2021	


SRP.RR.09 Emergency Planning and Business Continuity Management

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.09	<p>Risk cause The Council not preparing 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</p>	Chief Officer Place	<p><u>Potential</u> sub risks include:-</p> <ul style="list-style-type: none"> 01 – Civil Contingencies Risk Register used to highlight key risks and record response, - Council's plans developed and maintained in response to identified risks, - Contingency Planning Group support development, peer review and 	3	4	

	be expected to respond to e.g. Severe weather incident, Pandemic, Utility disruption etc. 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		roll out of plans. 02 – Establishment based incident response plans in place and maintained locally. 03 – Emergency response plan setting out general approach to respond to a major emergency in-line with key partner organisations. 04 – As part of the Council's Emergency response plan the importance of recording decisions made and information available at the time is highlighted as this would be scrutinised in the event of an FAI.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.09.02	Development of Emergency Planning Improvement Plan	Q1 20/21: Contingency Improvement Plan drafted and due to be shared with newly formed Risk and Resilience Group ahead of reporting to CMT for approval. Procurement process underway to source technology systems to support the development and interrogation of Business Continuity application during an incident.	Chief Officer Place	31-Mar-2021	

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	Risk cause Code of conduct for Members and employees actions falling short of International Standards. Risk event Failure in openness, accountability, clarity. Risk effect Service, partnerships and project outcomes not achieved Non-compliance with conduct standards and reduction in standards in public life	Legal Services Manager	<u>Potential</u> sub risks include:- 01 Macro governance at the top – failure in openness, accountability, clarity; 02 Micro governance in services, partnerships and projects and outcomes not achieved 03 Non-compliance with codes of conduct and reduction in standards in public life 04 Annual Assurance Statement. 05 Standing Orders 06 Scheme of Administration	3	4	


SRP.RR.11 Corporate Policies and Strategies

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.11	Risk cause	Chief Executive;	1. Single Midlothian Plan providing overarching direction	2	3	


	<p>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 align to strategic priorities will inhibit the rather than support implementation of strategic priorities.</p>	<p>Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>2. Service plans aligned to Single Midlothian Plan. 3. Leadership team to ensure correct approaches are adopted to get the right results. 4. Strategic housing investment plan, submitted to Scottish Government in December 2018, positive feedback with allocated funding. 5. Community Safety Strategic assessment completed. 6. Procurement Strategy 2018 7. Capital Strategy 8. Integrated Joint Board (IJB) Plan 9. IJB Strategic needs assessment</p>			
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SRP.RR.12 Internal Control Environment

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.12	<p>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 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>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>1. Services have been prompted to consider fraud and waste within Service Risk Registers. 2. Risk Management Guide, provides direction on the need to balance time, effort and cost against benefit of risk controls. 3. Internal Audit examine internal control arrangements based largely on the risk registers. 4. Whistleblowing Policy. 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.</p>	3	3	


Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.12.0 2	Financial governance in response to COVID 19	Q1 20/21: Financial overview report provided to CMT on financial governance and internal control since onset of pandemic	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	31-Oct-2020	

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 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>	Executive Director Children, Young People and Partnerships;	1. Statutory requirement to report on compliance with the climate change duties. 2. Council Carbon Management Plan 3. Approval of a Corporate Climate Change and sustainable development action plan 4. Implementation of provisions of Internal Audit report approved by Audit Committee 1 May 2018.	3	3	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.13.0 2	Climate Change Strategy	Q1 20/21: The Council are developing a new Climate Change Strategy following the Council Climate Emergency Declaration in December 2019.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	30-Aug-2020	


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 the some people in the care of Midlothian Council and its legacy organisations were subject to abuse by those who were employed to care for them.</p> <p>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</p>	Chief Officer Children's Services;	<p>The Council have set up an Abuse Inquiry Project Team to support the Council to prepare for information requests to support the Inquiry. In addition we have a Claims Project Team who have mapped out how we shall manage any future claims reported against the Local Authority.</p> <p>The Inquiry Team have established a Project Plan covering:</p> <ol style="list-style-type: none"> 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 	5	4	


	Midlothian this could damage the reputation of the Council and could place doubt in the eyes of the public as to the safety of these currently in care. There is significant scope for a substantial financial impact arising from claims of historic abuse. Some existing employees may be affected by the inquiry and subsequent claims of abuse. We have request an extension for Parts B, C & D of the last Section 21 to April 2020, which has been granted.		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.			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.0 1	Implementation of Project Plan	Q1 20/21: A project team is in place with project plan with a range of identified actions which are being progressed. Monthly meetings to progress project plan. During lockdown a further extension was requested as the workers assigned to the abuse inquiry were not deemed critical workers therefore were not able to attend work.	Chief Officer Children's Services;	31-Mar-2021	
SRP.RA.14.0 2	Foster Care Case Study	Q1 20/21: In August 2019 all 32 Local Authorities received a Section 21 in relation to 'Foster Care Case Study'. This is a significant piece of work which spans from 1930 to date requesting information around funding of foster carers, legal status/responsibility/ethos, children's background experience who were placed in foster care/ information on foster carers and the culture of the organisation. There is on-going liaison with other local authorities and legal services around progressing this request which is now due 30th September 2020. Further work is ongoing around securing experienced and professional staff to undertake this work.	Chief Officer Children's Services;	30-Sep-2020	


SRP.RR.14.2 Scottish Child Abuse Claims Project

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.14.2	Risk Cause: Midlothian Council may receive claims as a result of the Limitation (Childhood Abuse) (Scotland) Act 2017 coming into force on 4th October 2017. The Limitation (Childhood Abuse) (Scotland) Act 2017 means survivors of child abuse no longer face the time-bar that requires person injury actions for civil damages to be made within three years of the related incident. The new limitation regime will have retrospective effect (up to including 1964)	Chief Officer Children's Services;	1. Agreed further update to Council to keep them abreast of the current situation and potential implications around staffing and future financial costs. 2. The Qualified One Way Costs Shifting (QOCS) is a change in legislation that will mean we cannot recover costs unless the pursuer has made a fraudulent claim or has been 'manifestly unreasonable' This basically takes away all risk for pursuers so if they lose they	4	5	

	<p>Risk Event: Midlothian Council has established a Claims Working Group to prepare for the management of any claim that is received (including support for victims). The Claims Working Group has established a process ('Claims Procedure') for dealing with the claims.</p> <p>Risk Effect: There is potential risk of reputational damage to the Council should any claims be made. In addition there is a financial risk should we have to either defend or pay out for any claims</p>		<p>won't have to worry about paying the Council's costs. At the time of writing there remains no date for implementation of this piece of legislation.</p> <p>SOLAR and COSLA have been in discussion with CELCIS who undertook consultation and engagement with victims/survivors of abuse. The outcome of which has resulted in a recommendation being made to Scottish Government to commit to establishing a financial compensation/redress schemes for victims/survivors. Whilst the implementation of such a scheme may still be some way off, this may mitigate some of the financial risks that the Local Authority was potentially facing.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.14.2-3	Assess need to make financial provision	Q1 20/21: Assess the ongoing financial impact of compensation/redress. Compensation/redress scheme has been developed and the funding of claims is understood an assessment on the potential financial impact should be carried out, supported by the Council's finance team. The work around the Scottish Governments Redress Bill is ongoing, developments in this area are being monitored.	Chief Officer Children's Services;	31-Mar-2021	

SRP.RR.16 Growing Council


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.16	<p>Risk cause Population growth in Midlothian over the next 10 - 15 years will see Midlothian become the fastest growing Council in Scotland. . 0-15 population increase, projected at 20% and 75+ population increase projected to increased by 100% between 2014 and 2039.</p> <p>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</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place; Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary	<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 Strategy 6. Housing Strategy 7. Joint needs assessment used to develop - IJB Strategic Plan 8. Capital Plan and Asset Management Board will scrutinise and challenge slippage on capital programmes recognising that slippage can have an adverse impact on financial sustainability and also the delivery on assets required to support capital growth. 9. City deal provides the opportunity to support inclusive growth. 	3	4	

	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.	Care and Older People; Chief Officer Place				
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SRP.RR.17 UK Decision to leave the EU

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.17	<p>Risk cause UK vote to leave the European Union</p> <p>Risk event UK leaving the European Union</p> <p>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 further economic growth.</p>	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place	<p>01 – EU Exit Working Group</p> <p>02 – Taking a risk management approach to identifying and assessing anticipated impacts</p> <p>03 – Working with a range of national and local bodies to inform preparatory arrangements.</p> <p>04 – EU Settlement scheme promoted on Council Internet to support those living and working in Midlothian to access the Home Office scheme.</p>	3	4	

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>	Chief Executive; Executive Director Children, Young People	<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</p> <p>3 - Comprehensive range of Health & Safety Management &</p>	3	5	

	<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>	<p>and Partnerships; Executive Director Place; Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>Assessment based development opportunities for line managers 4 - Use of Health & Safety Management Information System to enhance information transfer and organisational efficiency 5 – Comprehensive training programme in place to support those with responsibility for managing health and safety.</p>			
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Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.RA.19.05	Development of key Risk Assessments and risk assessment templates in response to COVID 19	Q1 20/21: New risk assessment guidance and support for managers rapidly deployed in response to COVID 19 in line with associated Scottish Government guidance. Areas covered included workplace assessments, return to work assessments for those with underlying health conditions and reopening of schools.	Chief Officer Place;	30-Jun-2020	

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. . 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</p>	<p>Executive Director Children, Young People and Partnerships; Chief Officer Place</p>	<p>1. Learning Estate Strategy 2. Early Years Expansion to 1140 hours updates 3. Capital Strategy</p>	4	5	


	<p>impact the Councils ability to fulfil its statutory obligations in relation to these groups.</p> <p>Risk effect Inadequate capacity within the school estate and/or Early Years to cope with the projected increase in numbers. Lack of staffing and/or financial support to build new schools Potential for additional unfunded request to place 4 year olds with August to December birthdays requesting additional year of 1140 hours, not currently funded by Scottish Government.</p>					
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SRP.RR.21 Cyber Security


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.RR.21	<p>Risk Cause: Malicious attempts to damage, disrupt or gain unauthorised access to Council computer systems, networks or devices</p> <p>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.</p> <p>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 organisational measures are deemed insufficient.</p> <p>Severe business disruption including the almost total loss of critical IT systems and networks leading to significant service delivery challenges.</p>	<p>Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place: Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place</p>	<p>1. Implementation of the Scottish Government Cyber Resiliency Public Sector Action Plan 2. Cyber Essentials Plus Certification 3. Public Sector Network 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</p>	3	5	

OPPORTUNITIES .


SRP.OP.01 Shawfair


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.01	The Shawfair development with its new Rail link provides a major incentive for house-builders, employers retail and commercial interests including opportunities to secure a low carbon community through district heating from Zero Waste.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> 1. Shawfair Development Group. 2. Legal agreement with developers to secure developer contributions (Section 75) 3. Plan for entire community: 4. Business and industrial provision, including small business incubator space. 5. Circa 4000 new homes 6. A school campus comprising Early Years, Nursery, Primary, Secondary & Life Long Learning provision 7. New Primary schools 	5	4	

SRP.OP.02 Borders Rail


Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.02	Passenger numbers after three years of operation are above projections. The railway has been, and continues to be a catalyst for economic development, access to training and labour markets, tourism growth, environmental improvements must notably in town centres, and access to the countryside.	Executive Director Children, Young People and Partnerships;	<ol style="list-style-type: none"> 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	

SRP.OP.03 Easter Bush - Penicuik

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

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.03.A 1	A702 Trunk Road Improvements	Q1 20/21: City Deal business case for Easter Bush expansion includes A702 road scheme to improve long term strategic access. Through liaison with Edinburgh University and Transport Scotland within the context of City Deal.	Executive Director Children, Young People and Partnerships;	31-Mar-2021	

SRP.OP.04 City Deal


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


SRP.OP.05 Growing Council

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.05	Midlothian Council has been identified as the fastest growing Council's in Scotland. This brings the opportunity to support the Council vision of being 'A Great Place to Grow'. As a growing Council this brings the opportunity to redevelop parts of Midlothian, improve infrastructure with a focus on area targeting, improving economic opportunities, improving education and health outcome.	Chief Executive; Executive Director Children, Young People and Partnerships; Executive Director Place:	1. Community Planning Partnership 2. The Single Midlothian Plan 3. Strategic Housing Investment Plan (SHIP)	5	5	

	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.	Head of Adult and Social Care; Chief Officer Children's Services; Chief Officer Corporate Solutions; Joint Director Health and Social Work; Head of Primary Care and Older People; Chief Officer Place				
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SRP.OP.07 Creating a world Class Education System

Risk Code	Risk Identification	Managed by	Risk Control Measures	Likelihood	Impact	Risk Evaluation
SRP.OP.07	The Centres of Excellence model is a core part of the Council's strategy to create a world-class education system in Midlothian. This is an ambitious project designed to deliver excellence and equity with a particular emphasis on interrupting the cycle of poverty. .	Executive Director Children, Young People and Partnerships;	1. Digital Centre of Excellence at Newbattle Community High School 2. Partnership agreement with the University of Edinburgh 3. A701 High School, pilot project for next round of SFT funding – funding model building in energy efficiency targets	4	5	

Related Action Code	Related Action	Related action latest note	Managed By	Due Date	Status
SRP.OP.A.07.01	Research and development	Q1 20/21: Replacement for Beeslack High school progressing with research being carried out with the University of Edinburgh to establish the impact of new school buildings on educational attainment.	Executive Director Children, Young People and Partnerships;	31-Aug-2023	

Audit Scotland Report: Local Government in Scotland Overview 2020

Report by: Dr Grace Vickers, Chief Executive

Report for Noting

1 Recommendations

The Committee is asked to note the Audit Scotland report and the Council's positions in relation to the report's recommendations.

2 Purpose of Report

The purpose of this report is to provide Audit Committee with a summary of the Audit Scotland report, 'Local Government in Scotland: Overview 2020' and the Council's position in relation to the report's recommendations. The following is a link to the full report:

<https://www.audit-scotland.gov.uk/report/local-government-in-scotland-overview-2020>

Whilst the report was produced prior to the pandemic, it still contains important messages which should be helpful as part of the recovery out of the crisis which emphasised the essential importance of effective leadership, good governance and good financial management for all councils.

Date

1 September 2020

Report Contact:

Myra Forsyth

myra.forsyth@midlothian.gov.uk

3 Background

- 3.1** This report is the Accounts Commission's annual summary of the key challenges and performance issues faced by councils. The report was produced prior to the pandemic and, after careful consideration, a decision was taken to issue the report now.
- 3.2** The evidence used in the overview report was compiled before the escalation of the COVID-19 pandemic and it sets out the Accounts Commission's view before the pandemic began to unfold. It provides an independent overview of the challenges facing councils in Scotland, how councils are responding to tightening budgets and how this affects the services provided to the communities they serve.
- 3.3** As well as informing the public, the report aims to inform local government councillors and senior council officers, to support them in their complex and demanding roles. Although this report does not address the impact that the COVID-19 pandemic will have on local government and its communities, the issues and the messages remain relevant.
- 3.4** The overview report covers the following areas;
1. The context councils were operating in prior to the pandemic, with increasing need for services for communities but also with financial pressures and uncertainties.
 2. It looks at some of the main tools that contribute to change and how effectively councils are using these to respond to increasing demand and strained budgets.
 3. The final section of the report sets out a case study on planning services as an example of how these challenges are affecting an individual service, how that service is responding and the impact on its performance.

To help councillors the report includes additional supplements as follows:

4. A scrutiny tool which sets out questions that councillors could ask to help them understand their council's position, scrutinise its performance and make difficult decisions (see appendix C).
5. A tool which provides a further breakdown of data by council area to provide more detail at a local level is also available on Audit Scotland's website here:

<https://www.audit-scotland.gov.uk/local-government-in-scotland-overview-2020>

- 3.5** The report draws on findings from Local government in Scotland: Financial overview 2018/19, published performance data and local government audit work in 2019. It also draws on a range of sources of evidence. Financial information is taken from the local government financial circulars, the Scottish Government's local financial returns (LFRs), and councils' annual accounts. Performance information is gathered from the Local Government Benchmarking Framework (LGBF) data, the National Performance Framework (NPF) indicators and relevant reports from other scrutiny bodies, such as Education Scotland and the Care Inspectorate.
- 3.6** The overview report contains a number of references specific to Midlothian Council, including data references to Midlothian's population, deprivation levels and the level of council tax (pages 12, 13, 15 and 21). In addition there are a number of references which have previously appeared in Midlothian's Best Value Assurance Report (BVAR) which was published by the Accounts Commission on 4 July 2019 (pages 25, 27, 28, 30, 31, 33 and 36). For those items identified as areas for improvement in the BVAR a separate Improvement Action Plan was put in place and an update regarding progress will be presented to Council before the year end.
- 3.7** The report covers the following key areas:
1. **The challenges** - The overview illustrates the challenges and complex landscape that contribute to the significant pressures on local government and its partners through a series of infographics.
 2. **Doing things differently** - This section of the overview sets out progress against the following previously identified areas of importance and other important contributing factors to effective change, which reflect some of the core characteristics of Best Value.
 - developing leaders, staff, and skills to deliver change. This requires effective leadership and workforce planning that is clear about the workforce needs now and in the future, where the gaps are and what training or other action is needed to fill them.
 - improving services' efficiency and performance through transformation and redesigning services around the needs of the people who use them.
 - collaborating with partners, the third sector (such as charities) and communities to think differently about how to deliver and fund services and to continue to seek and implement innovative ways of working.
 - undertaking medium- and long-term financial planning to deliver national policy commitments while continuing to sustain local services with reducing budgets and increasing demands.
 3. **Service case study** - This section focuses on planning services to illustrate how the challenges for local government have affected this service area, and how it is responding.

4. Overview 2020 Report - Key Messages/Recommendations

- 4.1** The report identifies the following key messages and states that COVID-19 pandemic brings unprecedented challenges across communities and public services. It notes the effect on the health and wellbeing of our communities, as well as the financial difficulties and increased levels of poverty, that will be significant. The impact on the economy, on national finances and on local public services will also be considerable. The overview report was compiled before the escalation of the pandemic and is an overview of local government in 2019. But its messages remain relevant. The pandemic multiplies the challenges for local government further and so the need to do things differently to meet the needs of communities more efficiently and effectively is even more important.
1. Councils are working hard to deliver services to their communities. But the context they are working in is increasingly uncertain and complex. Demographic and social change is creating demand for services, while the strain on budgets continues to intensify. National policy commitments are increasing and the stresses on other public and third sector partners add to the difficulties in delivering services. The cumulative effect of these pressures on councils is beginning to show across service performance and use of financial reserves.
 2. Scottish Government revenue funding to councils has reduced in real terms over the period 2013/14 to 2020/21 by 3.3 per cent. Since 2017/18 however, it has increased by 3.9 per cent in real terms, to £10.7 billion in 2020/21. This does not include additional funding in response to the COVID-19 pandemic. The strain on budgets is evident as councils continue to dip into their reserves to make ends meet. Medium-term funding levels are uncertain, making continued use of reserves to manage the funding gap unsustainable. Long-term financial planning is not well enough developed in many councils and in integration joint boards. Medium- and long-term financial planning are important tools for making well-informed decisions and to effectively manage continuing financial challenges.
 3. Alongside the uncertainty of funding levels, the scale and complexity of the challenges for councils and integration joint boards will continue to grow in the coming years. Change is needed in how they serve their communities, so that they are able to respond to the needs and improve outcomes for people into the future, in the most efficient and effective ways. More radical thinking is needed for longer-term solutions. It requires investment of time and capacity by political and management leaders, to analyse the range of challenges for the area, develop the thinking and planning for the medium and longer term. This is difficult, in already demanding roles, but this investment is important.

4. Councils alone cannot improve outcomes for communities and achieve local priorities. The full potential of collaborative working with partner organisations and communities is not yet being realised. More progress is needed. Councils need to demonstrate strong leadership and collaborate with partners, including integration joint boards, NHS boards, the voluntary and private sectors, and their local communities. This is essential if they are to make best use of local resources, including the workforce, and demonstrate Best Value.
5. Workforce planning is fundamental to ensure that councils have the staff, skills and leaders they need to deliver change. Some progress has been made to improve workforce planning, but much more needs to be done. As the workforce ages, councils need to be more flexible and agile in how they deploy staff, work with partners and attract younger people to work in local government and respond to specific skills gaps. This also requires comprehensive workforce data and planning.

4.2 The recommendations identified within the report cover the following key areas: Governance, Collaboration, Capacity and Skills and Services which are set out in the report as follows:

The report states that 'To respond to the challenges facing local government and deliver local priorities and improve outcomes for their communities:

1. Governance - councils and integration joint boards need to:

- invest leadership capacity in analysing the challenges and planning for the future, including:
 - plans for how services will be delivered that reflect the scale of the challenges ahead and will deliver demonstrable improvement in outcomes for communities
 - putting in place and continuing to develop medium- and long-term financial planning that will inform ongoing review and implementation of plans for change.
- monitor and report on delivery of local priorities and outcomes while improving public performance reporting.

2. Collaboration - councils and integration joint boards need to:

- maximise the potential of collaborative working by:
 - working alongside partners to improve community planning partnerships, so that they have a clearer strategic direction and take a more active role in leading local partnership working
 - engaging with other councils, partners and communities in developing plans to improve and change the way services are delivered.

- increase the opportunity for communities to influence or take control of local decision-making and, demonstrate how communities are supported to help design or deliver local services and improve outcomes.

3. Capacity and skills - councils and integration joint boards need to:

- develop leadership capacity and workforce planning arrangements including:
 - effective succession planning and capacity development for leadership positions
 - approaches to increase the uptake of learning and development opportunities by councillors, to ensure that they are equipped to respond to the challenging context and their role in planning for the future
 - improving the quality and range of workforce data to give a comprehensive profile of the current organisation-wide workforce
 - using this comprehensive workforce data to:
 - identify and address skills gaps, including those related to lack of capacity or the age profile of staff
 - plan for the skills required to deliver services, both now and in the future, including using skills from the third and private sectors, with a greater focus on collaborative and flexible working
 - prioritising the development of staff across their organisations, to build more resilient teams, focused on improving the lives of local people
 - building a learning culture to learn from experience both within and outside the organisation.

4. Services - councils and integration joint boards need to:

- consider how the recommendations above relate to each service.
- For planning services this specifically includes:
 - ensuring the role of chief planning officer is positioned to contribute at a strategic level to corporate level discussion and planning
 - developing detailed workforce planning and strategies that will respond to the changing skills needs of the service and consider at a national level how collectively the limited availability of planning professionals can be addressed

- providing effective leadership to staff for the cultural changes needed to respond to the shift in focus for this service
- implementing changes to how the service works to improve the level of partnership working and community engagement.

4.3 The Council is well aware of the context noted within the key messages of the report, as evidenced in a number of reports previously presented to Council and more recently in Midlothian's Route Map through and out of the crisis and regular financial monitoring and update reports.

4.4 Whilst the recommendations noted in the report were identified prior to the Covid-19 pandemic, they remain a key focus and inform Midlothian's strategy for recovery as we continue to respond and emerge from the crisis. The strategy detailed in the Route Map is based on the creation of a Wellbeing Economy, designed to achieve wellbeing, inclusion and fairness for communities and to protect and enhance the environment.

4.5 Building on the 9 key drivers for change as shown in Figure 1 and prioritising a range of interventions to support recovery such as Economic Renewal, Accelerated Capital Programme, Education Recovery Plan, Hub and Spoke Place Service Delivery, Health and Social Care Transformation and introducing policies such as Remote Working, the Council is in alignment with the recommendations noted in the overview report.

Holistic Working	Hub and Spoke	Modern	Sustainable	Transformational	Preventative	Asset Based	Continuous Improvement
<ul style="list-style-type: none"> • One Council - joined up - Services • All through support, minimising transition points 	<ul style="list-style-type: none"> • Local by default supported by 4 Locality Place Teams • Minimal services delivered centrally 	<ul style="list-style-type: none"> • Digital by Default • Place based front facing services • Home working for those services able to be delivered at home • Digital, rather than physical, attendance at meetings 	<ul style="list-style-type: none"> • Climate Change commitment to be Carbon neutral by 2030 • Minimising travel by committing to working as locally as possible 	<ul style="list-style-type: none"> • This strand supports the delivery of the other 8 drivers for change 	<ul style="list-style-type: none"> • Continued investment in early intervention and prevention as a priority 	<ul style="list-style-type: none"> • Local by default • Only retaining physical buildings where required • Maximising opportunities for social housing solutions • Eliminate homelessness 	<ul style="list-style-type: none"> • Committed to achieving "better than our previous best"

Figure 1: Key Drivers for Change

4.6 The recovery strategy is filled with hope and ambition to rebuild Midlothian following the global pandemic. It represents a significant shift for the council in order to help Midlothian deliver services which are digital by default with services delivered at the most local level, within the resources available. With an overarching principle being that in delivering services, whether commissioned internally or externally, that we keep our communities, our employees and our environment safe and at the same time meeting our commitment to being carbon neutral by 2030.

5 Report Implications (Resource, Digital and Risk)

5.1 Resource

There are no direct resource implications as a result of this report.

5.2 Digital

There are no direct IT issues arising from this report at this time.

5.3 Risk

Whilst there are no additional direct risks associated with this report, the Audit Scotland Report – Local government in Scotland: Overview 2020 does provide members with a tool to consider the wider scrutiny and performance management and risk elements associated with their role.

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

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

5.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Background information/Links

Appendix C – Supplement. Local government in Scotland: Overview 2020 – Questions for Councillors

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

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

This report does not directly impact Midlothian Council's key priorities but the Governance and Collaboration recommendations within the Audit Scotland Report do make reference to the importance of local priorities and outcomes and working with community planning partners and communities.

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 overview report reiterates the need for good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for the public which is supported in the planning and delivery frameworks adopted by the Council.

A.5 Involving Communities and Other Stakeholders

This report supports involving communities and the Audit Scotland Report references the need to work with communities and other stakeholders.

A.6 Impact on Performance and Outcomes

The report does not directly impact Midlothian Council's and wider partners performance and outcomes but it does stress the need to ensure consideration is given to the wider strategic planning and objectives as part of the council's response to Audit Scotland's findings noted in their report.

A.7 Adopting a Preventative Approach

This report supports current actions and plans in place to adopt preventative approaches.

A.8 Supporting Sustainable Development

The recommendations in this report support Midlothian Council's position in relation to Audit Scotland's findings for Local government in Scotland: Overview 2020 and supports ongoing sustainable development.

APPENDIX B

Background Papers/Resource Links

1. Midlothian Route Map through and out of the crisis

https://www.midlothian.gov.uk/downloads/download/721/midlothian_route_map

2. Council Agenda and supporting Papers – Financial Monitoring 2020/21 and Covid-19 Financial Update

<https://midlothian.cmis.uk.com/live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/941/Committee/10/SelectedTab/Documents/Default.aspx>

Appendix C: Supplement. Local government in Scotland: Overview 2020 – Questions for Councillors

This tool captures a number of questions for councillors to consider and relates to *Local government in Scotland: Overview 2020 report*. It is designed to prompt thinking on a range of issues to better understand your council's position and to consider areas you may want to seek further information on or scrutinise.

How well informed am I?			
Questions for councillors to consider		What do I know?	Do I need to ask any further questions?
Leadership			
1	Am I aware what succession planning and leadership development arrangements are in place for the corporate management team? Am I satisfied that these are appropriate?		
2	Do I know what issues I need to develop my knowledge or understanding of? How do I plan to get the appropriate training?		
3	Do I have access to training and learning materials that meet my needs? Do I have a personal development plan in place for training, learning and development that will assist me to be as effective as possible in my role?		
4	How effectively do the council's medium- and long-term financial plans reflect the population projections for my area and the resulting need for services and infrastructure?		
Change and improvement			
5	How clear are my council's plans for the changes needed so that outcomes for communities are improved alongside managing the financial and demand pressures?		
6	How do I know my council is delivering on the outcomes it has committed to achieve for local communities?		
7	Do I receive clear, timely and sufficiently detailed performance information to effectively scrutinise service and corporate performance?		
8	Is my council systematically using self-evaluation approaches corporately and in services to inform improvement? How involved or informed am I of the results and monitoring of improvement		

	plans?		
Workforce planning			
9	<p>Do we have detailed corporate and service level workforce planning?</p> <p>How clearly do they set out the current and future staff capacity and skills required and how this will be managed?</p> <p>How am I involved in scrutinising the effectiveness of workforce planning?</p> <p>Do I know how the council is addressing any specific issues with the workforce age profile or skills gaps in services?</p>		
Partnership working			
10	<p>How well do I understand all the partnership arrangements of my council?</p> <p>How effectively is my council working with partners to deliver services better and/or save money?</p> <p>What steps is the council taking to ensure partnership arrangements meet their full potential?</p>		
11	<p>What obstacles are facing our area's IJB?</p> <p>Am I aware of the steps taken to identify and address these obstacles and to improve the pace of integration?</p>		
Community empowerment and engagement			
12	<p>What do I know about the purpose and aims of participatory budgeting?</p> <p>What do I know about my council's approach to participatory budgeting, and how effectively is it using this to empower communities?</p>		
13	<p>How well is my council providing clear, balanced and accessible information to the public about how well it is performing, what needs to improve and how it is addressing this?</p>		
Planning services			
14	<p>How well informed am I about the requirements of the Planning (Scotland) Act 2019 and what this means for the council?</p>		
15	<p>What do I know about the demographic makeup and the projected changes within the council area?</p> <p>How effectively is the council using this information to plan how we deliver services, including planning services?</p>		

16	Do I know how well prepared my council is to deliver the requirements of the Planning (Scotland) Act 2019? How do I know if the planning service has the skills, capacity and resources to implement the new responsibilities the Act brings?		
17	What am I and the council doing to improve or restore community trust, confidence and respect in planning services?		
18	How confident am I and what assurance do I have that the council is well prepared to make the shift in planning services from the regulatory role to include more proactive engagement with communities and other partners?		
19	Do I know how the council is addressing any specific issues with the workforce age profile or skills gaps in services, such as planning services?		

Audit Scotland Counter Fraud Reports

Report by Jill Stacey, Chief Internal Auditor

Report for Decision

1 Recommendations

The Audit Committee:

- a) Acknowledge the Audit Scotland counter fraud reports published in recent months;
- b) Request that the Integrity Group of officers consider all three reports as part of their counter fraud role and responsibilities; and
- c) Request that the Integrity Group carry out an assessment of counter fraud controls associated with the covid-19-emerging-fraud-risks and report back to the Committee on findings and necessary actions.

2 Purpose of Report/Executive Summary

The purpose of the report is to make the Audit Committee aware of recently published counter fraud reports by Audit Scotland and the Management Actions required in response for improvement and assurance purposes.

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the Counter Fraud Strategy.

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3 Background

- 3.1** The Council at its meeting on 25 August 2020 approved a refreshed Counter Fraud Policy Statement and Counter Fraud Strategy, which had been endorsed by the Audit Committee on 22 June 2020 along with the Terms of Reference of the new Integrity Group.
- 3.2** Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the Counter Fraud Strategy.
- 3.3** The purpose of the new Integrity Group, which is integral to delivering the Counter Fraud Strategy, is to improve the Council's resilience to fraud, corruption, theft and crime (including cybercrime and money laundering). One way to achieve that is through engaging with national forums to share intelligence, lessons learned and best practice, carrying out a self-assessment of the Council's arrangements and agreeing any appropriate actions to continuously improve the arrangements in place.
- 3.3** The following reports have been published by Audit Scotland in recent months relating to fraud risks and outcomes:
- <https://www.audit-scotland.gov.uk/report/fraud-and-irregularity-update-201920> (published 30 June 2020) A summary of the cases of fraud and other irregularities at public bodies reported by external auditors for the financial year 2019/20. Covid-19 raises risk of public-sector fraud
- <https://www.audit-scotland.gov.uk/report/the-national-fraud-initiative-in-scotland-201819> (published 9 July 2020) Scotland's public finances have been boosted after a data-sharing exercise identified over £15 million of potential fraud and errors across the public sector. But auditors have warned that the Covid-19 pandemic has brought additional fraud risks.
- <https://www.audit-scotland.gov.uk/report/covid-19-emerging-fraud-risks> (published 23 July 2020) The Covid-19 pandemic has brought significant challenges across the Scottish public sector as bodies seek to deliver services for individuals, communities and businesses in an extremely difficult time, bringing greater risks of fraud.
- 3.4** This provides an opportunity for the new Integrity Group to consider the recently published counter fraud reports by Audit Scotland and determine any Management Actions required in response for improvement and assurance purposes. Monthly meetings have been arranged for the new Integrity Group to the end of 2020 to initiate its functions as set out in its Terms of Reference.
- 3.5** The Audit Committee is recommended to assign some tasks to the new Integrity Group associated with the recently published counter fraud reports by Audit Scotland and to request an assurance report thereon.

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

4.1 Resource

The Integrity Group will support the Management across the Council with counter fraud management by: overseeing the review of the counter fraud policy framework in line with best practice; highlighting emerging fraud and corruption risks, threats, vulnerabilities; agreeing fraud and corruption mitigation actions; raising awareness of bribery, fraud and corruption in the Council as a method of prevention; meeting during the course of fraud investigations with the aim to take corrective action, minimise losses and help prevent further frauds; and coordinating with Serious Organised Crime (SOC) Group.

4.2 Digital

None.

4.3 Risk

The Council is committed to minimising the risk of loss due to fraud, theft, corruption or crime and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

The Counter Fraud Policy Statement sets out the roles and responsibilities for the prevention, detection and investigation of fraud. The Counter Fraud Strategy provides a shift in approach to focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud. The steer provided by the Integrity Group and the work undertaken by the Corporate Fraud Team in collaboration with other Services is designed to reduce the fraud risks within the Council.

4.4 Ensuring Equalities

An Integrated Impact Assessment (IIA) Form was completed prior to the presentation of the revised Counter Fraud Policy and Strategy that were approved by the Council on 25 August 2020.

4.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change) by preventing and detecting fraud, additional resources might be available to support the Council's objectives. Any loss of funds due to fraud, theft, corruption or crime might impact on the ability of Midlothian Council to achieve its key priorities.

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Implementing the 9 drivers for change in practice is applicable to the Council's arrangements for tackling fraud as set out in the Counter Fraud Policy Statement and Counter Fraud Strategy. The shift to the key drivers for change is an intrinsic part of the proposed change in approach and culture for the Council for tackling fraud and corruption. For example:

- (a) The formal establishment of an Integrity Group with a Terms of Reference (approved by the Audit Committee on 22 June 2020) shifting to more holistic working in multi-disciplinary forums to tackle fraud in a consistent and collaborative way across the Council;
- (b) A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption, and crime and ensure these are embedded preventative practices;
- (c) Applying the minimum standard within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)' for counter fraud policy, strategy and other practices, and adopting the CIPFA Counter Fraud Maturity Model as a means of self-assessment moving forward will enable continuous improvement to be evaluated, managed and evidenced; and
- (d) Use of a blend of toolkits such as fraud vulnerability assessments and e-learning packages that can be tailored to specific Services.

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. The Counter Fraud Strategy states the Council will measure progress against the CIPFA Counter Fraud Maturity Model as a self-assessment approach to continuous improvement in order to be evaluated, managed and evidenced to demonstrate best value in the use of resources.

A.5 Involving Communities and Other Stakeholders

Ensuring awareness of the Whistleblowing facility to report areas of concern is important in the approach to tackling fraud. The facility has been promoted in recent years and is being utilised by staff, those within communities or other stakeholders.

A.6 Impact on Performance and Outcomes

The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud team. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. The Findings and Recommendations from Internal Audit and Corporate Fraud work which are presented to the Audit Committee during the year assists the Council in maintaining and / or enhancing fraud prevention and detection controls.

A.7 Adopting a Preventative Approach

Having robust fraud prevention and investigation arrangements in place contributes to safeguarding the Council's financial resources, for delivery of services, as part of protecting the public purse. A focus on enhancing fraud prevention and detection to improve Midlothian Council's resilience to the risk of fraud, theft, corruption and crime, and ensure these are embedded preventative practices are specific changes associated with the Counter Fraud Strategy.

A.8 Supporting Sustainable Development

None.

