

Unaudited Annual Accounts 2020/21

Report by Gary Fairley, Chief Officer Corporate Solutions

Report for Decision

1 Recommendation

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

2 Purpose of Report / Executive Summary

- 2.1** The purpose of this report is to present the Council's unaudited annual accounts for 2020/21 to Audit Committee and to provide a brief overview on some of the key areas. A separate presentation will be provided to Committee to support consideration of this report and the accounts themselves.
- 2.2** The 2020/21 Single Entity accounts show an increase in Net Assets of £47.885 million from 2019/20. Significant increases in the value of Property Plant and Equipment, Cash and Cash Equivalents and Pension Liabilities are the most significant contributors.

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3 Background

- 3.1** The unaudited annual accounts for 2020/21 are attached as an appendix to this report, having been sent separately to Committee members earlier in the month.
- 3.2** The Local Authority Accounts (Scotland) Regulations 2014 sets out the requirements in respect of preparation, submission and scrutiny of unaudited accounts as follows, paragraphs 9 and 10 set out the requirements for Audit Committee to consider the unaudited annual accounts by 31 August 2021.

Published Accounts and Audit

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

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

- (a) a management commentary;
- (b) a statement of responsibilities;
- (c) an annual governance statement;
- (d) either—
 - (i) a remuneration report in the style set out in the Schedule to these Regulations, or
 - (ii) a statement that no remuneration report has been prepared because no persons have received remuneration that requires to be included in such a report.

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

- (a) a housing revenue account;
- (b) a non-domestic rate account;
- (c) a council tax account;
- (d) any other statement relating to statutory funds which is required by any statutory provision.

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

(5) The proper officer must ensure that—

- (a) the statement of responsibilities required by paragraph (2)(b) accurately reflects the proper officer's responsibilities; and
- (b) the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.

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

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

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

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

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

- 3.3** In accordance with paragraph 6 and 7 of the regulations the unaudited annual accounts were signed by the Chief Officer, Corporate Solutions on 29th June 2021 and immediately submitted to Ernst and Young LLP (EY), the Council's appointed external auditors.
- 3.4** The regulations also provides for public inspection and in this regard public inspection ran from 1st July 2021 to 21st July 2021.
- 3.5** Accordingly, this meeting of Audit Committee is specifically to fulfil the requirements of paragraphs 9 and 10 of the regulations.
- 3.6** Separately on the Council agenda for 23 June 2021 was the Financial Monitoring 2020/21 – General Fund Revenue, Housing Revenue Account Revenue and Capital Final Outturn 2020/21 and General Services Capital Plan 2020/21 Final Outturn. These reports detail financial performance for each account area and were considered and noted by members.

4 Financial Statements

- 4.1** There continues to be refinements to the format and presentation of Midlothian's annual accounts as part of the continuous improvement agenda, particularly relating to the Management Commentary.
- 4.2** There have been no material changes to the accounting code for 2020/21 that have impacted on the Council.

5 Long Term Assets

- 5.1** The total value of Long Term Assets increased by £70.703 million from 31st March 2020. The increase is almost solely down to upward revaluations of the Councils school estate which, in 2020/21, fell within the rolling programme of asset valuations.
- 5.2** The Councils valuation methodology applied uses published Scottish Futures Trust (SFT) metrics intrinsic in the Learning Estate Investment Programme (LEIP) alongside evidence on the cost of school builds in Midlothian in recent years.
- 5.3** Subsequent to completion of the 2020/21 valuations the SFT published revised rates. These increased significantly and include, amongst other things, an uplift to reflect the additional costs of achieving the energy performance targets required by the LEIP programme. Discussion with EY is ongoing on the suitability of amending the 2020/21 valuations in the accounts to reflect the new rates.
- 5.4** The Council have amended the valuation basis for its shareholding Lothian Buses Ltd to exclude any impact from the volatility of IAS 19 Pension valuation methodology. This is exemplified in Lothian Buses Ltd accounts to 31st December 2020 by a move from an asset in the previous year to a liability, mainly as a consequence changes in demographic assumptions.

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

6 Current Assets

- 6.1** Cash and Cash Equivalents at 31st March 2021 are £28.982 million higher than seen a year previously. As covered in detail in the suite of financial monitoring reports presented to Council in June the main reasons for this are distribution of a large value of COVID-19 recovery funding by the Scottish Government late in 2020/21 and also pandemic related delays in capital programmes.
- 6.2** Debtors have risen by £7.153 million. Whilst this increase is predominantly due to relaxation in 2020/21 of policies for pursuing debt, the longer term impact on the potential for an increase in uncollectable debt is being closely monitored.

7 Long term Liabilities

- 7.1** The net pension fund liability has increased by £43.311 million to £141.030 million. The primary reason for this is a reduction in the real discount rate for obligations.
- 7.2** The 2020 triennial valuation shows an increase in the overall funding position to 104% (99% in 2017) indicating that, based on current assumptions and projections, all future pension costs can be met.
- 7.3** Long Term borrowing increased by £13.466 million to £273.893 million and stays well within member approved prudential code boundaries relating to capital programmes.
- 7.4** The accounting treatment of the Millerhill PPP is an area that was still in discussion between Midlothian Council, The City of Edinburgh Council and respective auditors at the time the unaudited annual accounts were finalised. Therefore, it was recognised that the accounting entries posted at the time would be very likely to change during the audit process. A final agreed position has recently been reached.

8 Audit and Consideration of audited Accounts

- 8.1** EY are well underway with the substantive phase of the audit with a clearance meeting scheduled for mid-September 2021.
- 8.2** Thereafter, the audited annual accounts are scheduled to be presented to Audit Committee on 28th September 2021 together with the EY annual audit report which will also go on to Council.

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

Consideration and Signing of Audited Annual Accounts

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

- (a) meet to consider the audited Annual Accounts; and
 - (b) aim to approve those accounts for signature as described in this regulation no later than 30th September immediately following the financial year to which the accounts relate.
- (2) That local authority or committee must consider whether the Annual Accounts should be signed, having regard to any report made on those accounts and any advice given by the proper officer or the auditor.
- (3) Immediately following the approval of the Annual Accounts for signature, the statements which form part of those accounts are to be signed and dated as follows—
- (a) the management commentary by the proper officer, the Chief Executive and the Leader of the Council;
 - (b) the statement of responsibilities by the Leader of the Council and the proper officer, who must also certify the matters referred to in paragraphs (5) and (6) respectively;
 - (c) the annual governance statement by the Chief Executive and the Leader of the Council;
 - (d) the remuneration report by the Chief Executive and the Leader of the Council; and
 - (e) the balance sheets by the proper officer, to authorise publication of the financial statements.
- (4) Where a local authority does not have a Chief Executive or a Leader of the Council, the statements that paragraph (3) requires that person to sign are to be signed by such other person as it nominates for that purpose.
- (5) The person who signs the statement of responsibilities as Leader of the Council must certify that the Annual Accounts have been approved for signature by, or on behalf of, the authority.
- (6) The proper officer must certify that the financial statements give a true and fair view of the financial position of the local authority and its group at the end of the financial year and the transactions of the local authority and its group for that year.
- (7) Following the signature of the Annual Accounts, the proper officer must provide the Annual Accounts, including the signed statements, to the auditor.
- (8) Any further report provided by the auditor following the signature of the Annual Accounts which relates to those accounts must be considered by the local authority or a committee of that authority whose remit includes audit or governance functions.

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

9 Report Implications

9.1 Resource

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

9.2 Digital

There are no IT implications arising from this report.

9.3 Risk

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

9.4 Ensuring Equalities

There are no equality implications arising directly from this report.

9.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Additional Report Implications

Appendix B – Background Information/Links

APPENDIX A – Additional Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

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

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on Delivering Best Value.

A.5 Involving Communities and Other Stakeholders

No consultation was required.

A.6 Impact on Performance and Outcomes

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

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

There are no sustainability issues arising from this report.

APPENDIX B

Background Papers/Resource Links (if applicable)