

2025/26

Midlothian Council Unaudited Annual Accounts



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Midlothian Council

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Management Commentary

Introduction

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

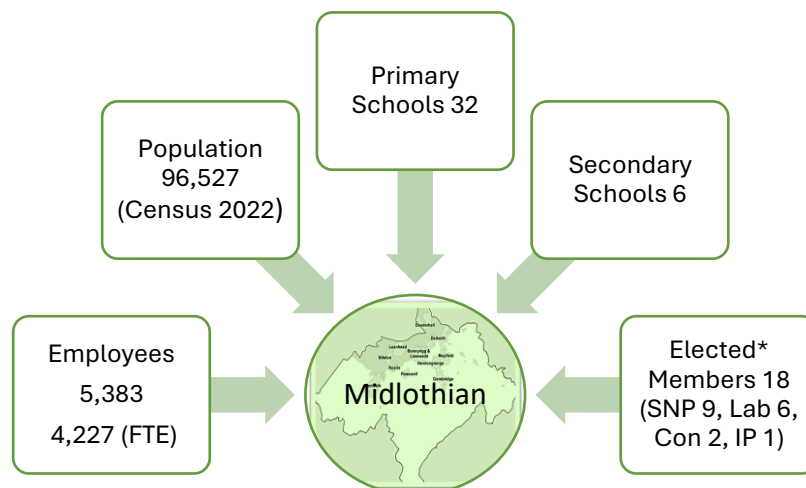
The Annual Accounts present the financial position and performance of the Council and its group, demonstrating stewardship of the public funds that support the Council's vision and key priorities. The format and content of the Annual Accounts are prepared in accordance with the Code of Practice on Local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

About Midlothian Council

Midlothian Council is located south of the city of Edinburgh centred on the main towns of Penicuik, Dalkeith, Bonnyrigg, Danderhall, Newtongrange, Gorebridge and Lasswade. One of the smaller local authority areas, but also the fastest growing in recent years, Midlothian's population has grown by 16.1% between the census 2011 and 2022 and projections show a continued increase by a further 9.1% to 2043. The Council is a significant local employer and works to support the local economy and community life.

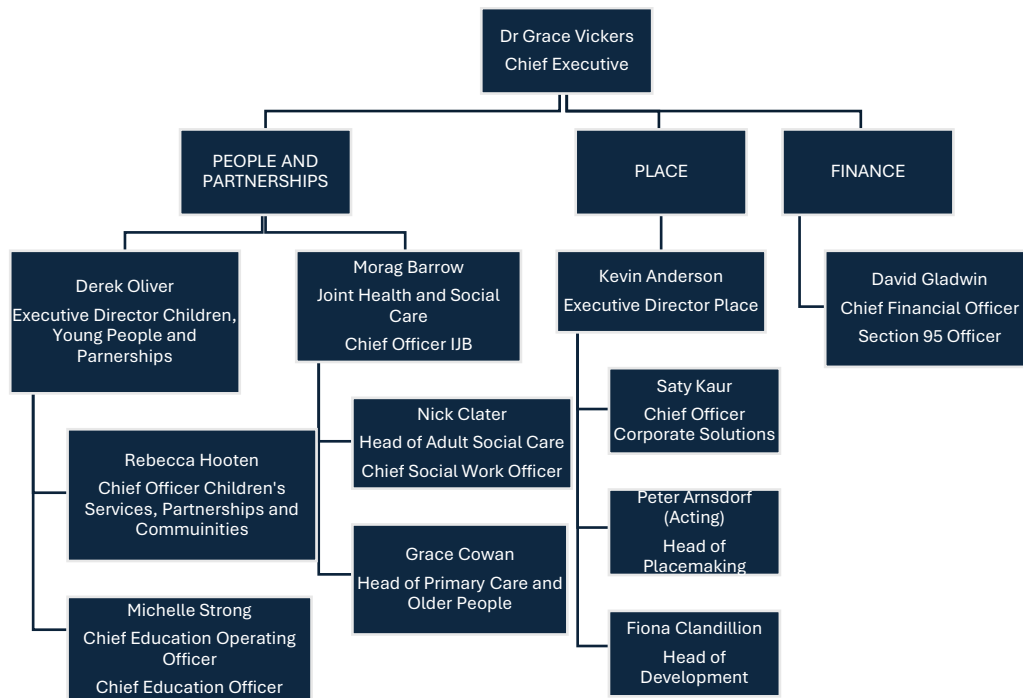
The Bush estate, located in Midlothian, also means Midlothian has emerged as world centre for the Bioscience industry and also accommodates the University of Edinburgh's Advanced Computing Facility (ACF), which houses the UK's national supercomputing services and the Edinburgh International Data Facility (EIDF).

Some key facts about Midlothian are:



*Councillor D Virgo, resigned from the Conservative Party on 30th November 2025 and joined the SNP in March 2026.

Council Service Structure



Our Key Priorities

Midlothian Council's key priorities are delivered via the Community Planning Partnership which are set out in the [Single Midlothian Plan \(SMP\)](#), which also sets out our vision for Midlothian to be a 'Great Green Place to Grow'. The plan shows how the Public, Private and Voluntary sectors and local communities will undertake actions together to secure improvements in meeting the needs of our local communities. The plan also focuses on reducing inequalities, promotes preventative approaches and it supports communities to increase their influence in decision making.

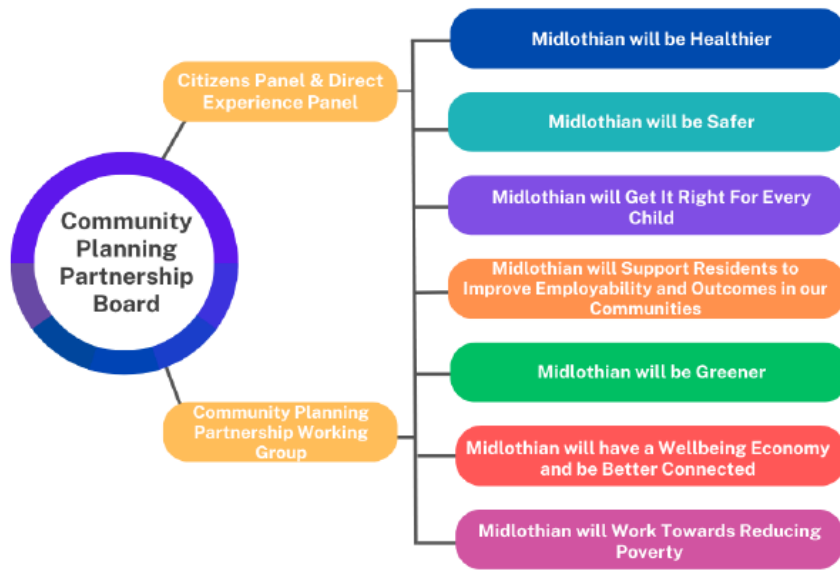
The Single Midlothian Plan identifies our three main outcomes, which are as follows:

- Individuals and communities have improved health and skills for learning, life and work;
- No child or household living in poverty;
- Significant progress is made towards net carbon emissions by 2045.

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

The Community Planning Partnership is led by the Community Planning Board, on which a number of organisations sit and work together to achieve key actions towards seven thematic priorities, with a more focused approach on reducing poverty and collaborating with communities to increase wealth, reflecting the well-being and circular economy principles using a place based model.

How we work together:



The annual Balanced Scorecard measures progress towards these outcomes and is used to show ongoing improvements and reflect the ongoing challenges within Midlothian. The full detail behind the performance indicators measured by the Balance Scorecard for 2025/26 can be found on the [Council's website](#).

Key Achievements and Highlights for 2025/26

Achievement	Commentary
£750 million City Region Deal Investment for funding the UK's Super Computer	This is an important achievement for our city deal region and our ambition to be the data capital of Europe. The Super Computer will be located at the University of Edinburgh's Advanced Computing Facility at Easter Bush in Midlothian.
Winner of best Collaborative Partnership Award	Awarded for Midlothian Energy Ltd, the Council's joint venture with Vattenfall, which is helping the Council lead the way in low carbon energy. From capturing waste heat at Millerhill and using this to provide hot water to thousands of homes in Midlothian, this project is making rapid progress on the ground and is a key part to the Council's journey to net zero by 2045.
Digital Schools Award for Rosewell Primary School	This national award, accredited by Education Scotland, recognises schools that embed digital technology across learning and share best practice.
Provision of Affordable Housing	The Council's Strategic Housing Investment Programme (SHIP) was submitted to the Scottish Government in October 2025. To address the need for affordable housing the SHIP details potential sites for 1,583 new affordable homes to be built during 2025-2031. During 2025/26 68 new Council houses were completed, this brings the total completed to 1,820 over the past nineteen years, net of demolitions and disposals. In addition, 10 properties were purchased during the year to add to the overall housing stock.

Financial Performance for 2025/26

Financial information is part of the Council's Performance Management Framework with the General Fund and Housing Revenue Account (HRA) financial performance reported quarterly to Council. This section summarises our financial performance for 2025/26, with full details being reported to Council on 23 June 2026 and is available on the Council's website.

Revenue Performance for 2025/26

General Fund

The General Fund is a statutory fund into which all the receipts of the Council are required to be paid out and from which all liabilities of the Council are to be met, except where statutory rules provide otherwise. Government grants, council tax income, fees and charges, non-domestic rates income (subject to pooling arrangements) and interest/returns on investments provide resources to the General Fund. The General Fund is split between non-earmarked balances (the level of funding available to the Council to manage financial risks and unplanned expenditure) and balances that are earmarked for specific purposes (**note 8**).

Actual outturns against budget for each of the Council's General Fund Service areas are shown in the Revenue Outturn portion of the table below. Also provided in the table below is a "Building the Expenditure and Funding Analysis (EFA)" reconciliation to assist users of the accounts to navigate from the Revenue Outturn Position to the first column in the EFA on page 35. The EFA provides the link between the Revenue Outturn reports and the figure in the Comprehensive Income and Expenditure Statement (CIES) on page 37 by removing the various statutory accounting adjustments under generally accepted accounting practices.

Revenue Outturn 2025/26				Building the EFA		
Service Area	Revised Budget £000	Net Expenditure £000	(Under)/ Overspend £000	Net Expenditure £000	Internal Reporting Adjustments £000	Figure as per EFA £000
Management and Members	3,479	3,496	17	3,496	(105)	3,391
Place:						
Corporate Solutions	26,019	27,036	1,017	27,036	(8,889)	18,147
Place	43,912	43,225	(687)	43,225	(1,868)	41,357
Central Costs	551	707	156	707	0	707
People and Partnerships:						
Midlothian Integration Joint Board	71,748	74,575	2,827	74,575	0	74,575
Adult Health and Social Care (Non-delegated)	720	718	(2)	718	(1)	717
Children's Services, Partnerships and Communities	21,801	23,856	2,055	23,856	(11)	23,845
Education	156,358	156,156	(202)	156,156	(988)	155,168
Lothian Valuation Joint Board	582	644	62	644	0	644
Non-Distributable Costs	899	788	(111)	788	0	788
Net Expenditure	326,069	331,201	5,132	331,201	(11,862)	319,339
Loan Charges	8,842	5,012	(3,830)	5,012	21,074	26,086
Non-domestic Discretionary Relief	70	78	8	78	(78)	0
Investment Income	(111)	(17)	94	(17)	(3,864)	(3,881)
Housing Revenue Account	(5,801)	(5,822)	(21)	(5,822)	(10,081)	(15,903)
Total Expenditure	329,069	330,452	1,383	330,452	(4,811)	325,641
Less Funding:						
Scottish Government Grant	(247,405)	(247,513)	(108)	(247,513)	78	(247,435)
Council Tax	(72,131)	(72,323)	(192)	(72,323)	6,401	(65,922)
Service Concessions (in-year)	(3,005)	(3,005)	0	(3,005)	0	(3,005)
Utilisation of Reserves	6,528	7,611	1,083	7,611	1,668	9,279

The most significant areas contributing to variances against budget were in relation to:

- A significant increase in the volume of external residential placements for children of £1.924 million;
- An increase in the volume of eligible pupils for transport to and from school with associated costs of £1.060 million;

- Medium Term Financial Strategy (MTFS) cost reductions taking longer than planned to be implemented, which had an adverse impact on the 25/26 financial position of £1.761 million;
- Some higher value new insurance claims through the financial year, an increase in the volume of claims and an increase in insurance premiums has resulted in an overspend of £0.707 million;
- Maternity cover in schools and higher costs from temporary resources to cover service areas facing challenges in securing permanent resource, partially offset by vacancies across the council staff, has resulted in an overspend in staff costs of £0.553 million;
- Continuing trend of reduced third party income from Millerhill Residual Waste Plant from sale of energy, mitigated partly by reduced bulky waste tonnage, has resulted in an overspend of £0.489 million.

Offset by:-

- Loan Charges was underspent by £3.831 million in 2025/26 with four main factors:
 - Deferral of borrowing to later in 2025/26 than budgeted and also to later years to match revised timing of capital expenditure;
 - A reduction of £35 million in the borrowing requirement for 2025/26;
 - Higher than forecast surplus cash related directly to timing of capital expenditure thus providing opportunity to generate some deposit income;
 - The immediate impact of the Public Works Loans rescheduling undertaken during 2025/26.
- Costs across the spectrum of learning settings for children and young people are lower than provided for in the budget mainly due to actual school pupil numbers being lower than budgeted pupil numbers thus giving rise to a positive variance of £0.731 million;
- Income from the Alpine Coaster at Destination Hillend exceeds budget which was based predicted user numbers in the approved business case. This is partly offset by additional staffing and security costs. Overall, there is a positive variance of £0.995 million.

Midlothian Council provide Midlothian Integration Joint Board (MIJB) an annual sum for services managed by the Midlothian Health and Social Care Partnership. This sum is adjusted in-year in accordance with the integration scheme. In 2025/26 MIJB spend on adult social care services exceeded budget by £2.827 million. In accordance with the Integration Scheme, a further allocation, in addition to the £71.748 million already approved, is required to be provided to MIJB to fund this. Detailed commentary on the financial performance of the Midlothian Integration Joint Board is contained in their annual accounts.

Full detail of all other variances affecting the final outturn position can be found in the 23 June 2026 Council Report [Midlothian Council > Meetings](#).

General Fund Reserve Summary

The Council approved a reserves strategy in February 2019 setting the minimum level of uncommitted reserve of two percent of net expenditure (excluding resources delegated to Midlothian Integration Joint Board), which now equates to £5.2 million. In 2025/26 there was an overall decrease of £7.611 million in the General Fund balance but a small increase of £0.232 million in non-earmarked reserves.

Movement in General Fund Reserve	£000
2025/26 Performance against budget	1,083
Planned utilisation of reserves	13,859
Budget carried forward for use in future years	(7,331)
Total Movement	7,611

Housing Revenue Account

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 tenants funds the revenue expenditure on housing management, repairs and maintenance and in part financing capital expenditure.

The table below provides analysis of financial performance for 2025/26:

Revenue Outturn 2025/26			
	Revised Budget £000	Net Expenditure £000	(Under)/ Overspend £000
Expenditure:			
Repairs and Maintenance	9,199	12,216	3,017
Supervision and Management	7,016	7,348	332
Capital Financing Costs	18,554	17,210	(1,344)
Void Rent and Council Tax	1,247	1,109	(138)
Other Expenses	1,743	1,827	84
Total Expenditure	37,759	39,710	1,951
Income:			
Council House Rents	(36,767)	(36,936)	(169)
Other Rents and Recharges	(1,053)	(1,106)	(53)
Total Income	(37,820)	(38,042)	(222)
Utilisation of Reserves	(61)	1,668	1,729

Overall the Housing Revenue Account showed an overspend of £1.729 million for 2025/26 mainly due to:

- Pressure on the repairs and maintenance budget of £3.017 million due to:-
 - An increase in the required number of roof repairs, further exacerbated by some of these repairs requiring significant scaffolding costs;
 - Capital investment in existing stock as part of historic upgrade programmes is needing refreshed as these upgrade programmes began over fifteen years ago. As a result, this is putting more pressure on the revenue repairs budget. Stock condition surveys are currently underway to inform a future Scottish Housing Quality Standard Capital Programme, which will alleviate this pressure in future years.

This was offset by a discount on early repayment of Public Works Loans Board long term loans and a reduction in the overall borrowing requirement which resulted in an underspend in capital financing costs by £1.344 million.

Housing Revenue Account Reserve Summary

The closing balance on the Housing Revenue Account reserve is £30.242 million which is committed to fund the Council's ambitious capital investment plan, currently running to 2040/41. The capital plan includes provision to build additional housing stock and continue to improve and upgrade its existing stock, particularly through Scottish Housing Quality Standard (SHQS) and Energy Efficiency Standard for Social Housing (ESSH) works. The majority of this plan is funded through prudential borrowing with costs of borrowing met from rental income and planned utilisation of the Housing Revenue Account Reserve, which is projected to reduce to approximately £2 million by the end of the plan.

Internal Reporting Adjustments for Expenditure and Funding Analysis (EFA)

As part of the financial monitoring process the Council reports on the Housing Revenue Account (HRA) separately from the General Fund. The structure of the EFA requires HRA figures to be included and this is shown in the table below. There are other presentational adjustments in relation to the cost of the Council Tax Reduction Scheme and internal recharges, which are broken down in the table below.

Revenue Outturn 2025/26				
Service Area	HRA £000	Council Tax Reduction £000	Other Misc. £000	Total £000
Management and Members	(101)	0	(4)	(105)
Place:				
Corporate Solutions	(2,546)	(6,401)	58	(8,889)
Place	(2,814)		946	(1,868)
People and Partnerships:				
Adult Health and Social Care (Non-delegated)	0	0	(1)	(1)
Children's Services, Partnerships and Communities	0	0	(11)	(11)
Education	0	0	(988)	(988)
Net Expenditure	(5,461)	(6,401)	0	(11,862)
Loan Charges	21,074	0	0	21,074
Non-domestic Discretionary Relief	0	0	(78)	(78)
Investment Income	(3,864)	0	0	(3,864)
Housing Revenue Account	(10,081)	0	0	(10,081)
Total Expenditure	1,668	(6,401)	(78)	(4,811)
Less Funding:				
Scottish Government Grant	0	0	78	78
Council Tax	0	6,401	0	6,401
Utilisation of Reserves	1,668	0	0	1,668

Impact of Revenue Performance on Usable Reserves

Details of the balances and prior year comparatives reflecting the utilisation of reserves reported above are shown in the table below, more detail can be found in the Movement in Reserves Statement on Page 38.

Usable Reserve	Purpose	Balance at 31 Mar 25 £000	Movement in Reserve £000	Balance at 31 Mar 26 £000
General Fund (<i>Note 8</i>)	Funds held for specific purposes and as a general contingency.	(32,029)	7,611	(24,418)
Housing Revenue Account	Funds held for investment in the Council's Housing Stock.	(31,910)	1,668	(30,242)
Capital Fund	Funds set aside for major capital developments or asset purchases.	(17,600)	(732)	(18,332)
Repairs and Renewals Fund	Funds held for specific types of repairs works.	(3,756)	(775)	(4,531)
Total Usable Reserves		(85,295)	7,772	(77,523)

The movement in the capital fund reserve relates to transfer of capital receipts to be held for future use, whilst the movement in the repairs and renewals fund relates to the transfer from the general fund for future repairs works in relation to the Council's Public Private Partnership (PPP) and similar contracts.

Capital Performance for 2025/26

Capital expenditure is the money spent by the Council for buying, upgrading or improving assets such as buildings and roads. The difference between capital and revenue expenditure is that the Council receives the benefit from capital expenditure over a period exceeding one year. Capital expenditure will be reflected as additions within **Notes 14-15** on the Balance Sheet.

The tables below identifies actual capital spend during the financial year for key projects:

2024/25 Revised Budget £000	2024/25 Actual Spend £000	Capital Projects	2025/26 Revised Budget £000	2025/26 Actual Spend £000
		General Fund		
17,532	17,218	Children, Young People and School estate Programme	20,099	19,472
6,971	6,971	Roads, pavements and street lighting	5,226	5,226
15,078	15,078	Regeneration and development	11,799	11,799
2,401	2,401	Fleet replacement and upgrades	4,326	3,911
2,560	2,560	Digital assets	3,155	2,258
2,361	2,346	Transport, energy and infrastructure	5,152	5,236
872	872	Property and equipment upgrades	4,931	4,548
1,495	1,588	Other capital projects	225	864
49,270	49,034	Total General Fund Projects	54,913	53,314
		Housing Capital Spend		
42,247	42,247	New social housing and market purchases	33,649	33,649
7,739	7,739	Scottish Housing Quality Standard (SHQS) works	6,696	6,696
2,724	2,724	Energy Efficiency Standard for Social Housing (EESH 2)	4,187	4,187
625	464	Other housing capital projects	2,672	2,567
53,335	53,174	Total Housing Projects	47,204	47,099
102,605	102,208	Total Capital Expenditure	102,117	100,413

A combination of government grants, external funding contributions from third parties, capital receipts, section 75 developer contributions and prudential borrowing funded this expenditure. **Note 26** in the accounts provides a full analysis of capital expenditure and the financing required.

Treasury Management and Investment

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

strategy, which demonstrates that the Council’s capital investment plans are affordable, prudent and sustainable.

Financial Indicator	2024/25	2025/26	Commentary
Underlying Borrowing Requirement (part of the Capital Financing Requirement*)	£469.866m	£520.271m	Reflects the Council’s underlying need to borrow to finance capital expenditure incurred historically by the Council that has yet to be financed.
Authorised debt limit	£604.957m	£693.930m	This is calculated in line with the requirements of the <i>Prudential Code for Capital Finance in Local Authorities</i> and represents the maximum amount that the Council may borrow and is set at a level that reflects capital expenditure but includes headroom to allow for unusual cash movements.
Actual external borrowing	£379.445m	£463.024m	The actual external debt and long-term liabilities position of the Council. This figure should never exceed the Council’s authorised debt limit (see indicator above).
Under/(over) borrowed	£90.421m	£57.247m	This demonstrates the Council’s capital borrowing requirement has not been fully funded by loan debt and is using cash from working capital to support capital programmes whilst interest rates on long-term borrowing are high.
General fund ratio of finance costs to net revenue stream	1.63%	1.57%	This is a measure of how affordable the Council’s capital plans are. It takes actual finance costs as a percentage of net revenue.
Housing Revenue Account ratio of finance costs to net revenue stream	42.81%	45.24%	As above.
External loans fund interest rate	3.14%	3.32%	Average rate of interest paid on external debt.
Internal loans fund interest rate	2.73%	2.72%	This combines the interest paid by the Council on money borrowed, with the interest earned by the Council on money invested, along with other charges to arrive at a weighted average ‘loans fund rate’ figure for the Council.

*excludes Public, Private Partnership (PPP) and similar contracts.

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) and **Note 16-17** in the accounts provides further information on the Council's borrowing reflected on the Balance Sheet.

Balance Sheet

The table below summarises the Council's Balance Sheet as at 31 March 2026. The Balance Sheet brings together assets and liabilities, year-end balances, money owed to and by the Council and reserves. More information on the Balance Sheet is provided on page 39.

	31 March 26 £000	31 March 25 £000	Movement £000
Long-term assets	1,292,139	1,252,323	39,816
Current assets	79,154	57,621	21,533
Current liabilities	(129,350)	(111,792)	(17,558)
Long-term liabilities	(528,660)	(465,769)	(62,891)
Net Assets	713,283	732,383	(19,100)

The main areas of movement in the net assets of the Council relate to the following areas:-

Long-term Assets

Long-term Assets have increased in value by £39.816 million. This is primarily due to continued investment in new assets across the Council and increase in the value of our existing assets which have been revalued as part of our five-year rolling revaluation programme. Further details of these movements can be found in **Notes 14-15** of the annual accounts.

Current Assets

The movement in current assets is mainly due to an increase in debtors of £18.132 million for the financial year. Further details on the Council's debtors can be found in **Note 18** of the annual accounts.

Current and Long-term Liabilities

An increase in the Council's short-term borrowing of £17.030 million and longer term borrowing of £67.613 million, due to increase in capital investment and in line with the Council's treasury strategy, has contributed to an increase the Council's current and long-term liabilities.

Risks and Uncertainties Facing the Council

Like all local authorities Midlothian Council is facing a period of unprecedented change and financial challenge with many factors affecting the need to adapt as an organisation. These pressures and demand for Council services are only likely to increase as it reacts to future challenges. Some of the challenges the Council face include:

Risk and Uncertainty	Commentary
Continued Demographic Pressures	Continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care, school age pupils and the significant population growth in Midlothian. Increasing financial hardship is also expected due to pressures on household budgets. These pressures continue to present a considerable challenge to the Council in both financing them and transforming services to improve ways of managing some of the service delivery to respond to these pressures.
Delays in the supply chain caused by local or global market shortages	World events continue to contribute to a supply chain volatility leading to the Council facing higher prices and shortages of key resources, particularly in the construction and care sectors. This has resulted in longer lead times and increased development costs in maintaining existing and constructing new capital assets. The Council continues to monitor the impact of this on delivery of its front-line services and its capital programmes.
Climate Change	The Council recognises that climate change is an urgent issue and has committed to significantly reduce carbon emissions by 2045. This will require significant investment and resource to achieve this.
Financial Pressures	Pay, general inflationary pressures and available Scottish Government Grant funding are critical areas of modelling given their overall significance and uncertainty. Pressure on the public purse remains acute and indications are that grant support to Councils will remain at, or close to, a cash flat level for at least the next few years. This represents a challenging outlook for local government with a potential real term reduction in grant income at a time when costs and service demands continue to rise, particularly in Midlothian as the fastest growing Council. There are a number of factors which will continue to influence the actual level of grant support the Council might expect. Among these will be a range of economic factors which will impact on the resources Scottish Government has at its disposal, whether from the UK Government block grant or through tax revenues directly controlled by Scottish Government. Scottish Government priorities and policies relating to taxation and spending will also be a key factor.

Whilst an assessment of economic factors can be made at this time, based on various sets of published information the impact of Scottish Government's tax and spending priorities will only become apparent when the Scottish Government's 2027/28 budget is published later in 2026 and whilst the Council set a balanced budget for 2026/27, which included a council tax increase of 9%, in the context of potentially reduced real terms external funding and exponential growth in demand for services, the Council faces a considerable challenge to ensure its future expenditure plans are financially sustainable.

How the Council Manages Risk

Action	Commentary
Service Risk Registers	The Service Risk Registers contain operational risks and are managed by each Service Management Team. The Risk Management Group provides further scrutiny of service risks and significant risks are added to the Corporate Risk Register.
The Corporate Risk Register	The Corporate Risk Register managed by the Corporate Management Team provides assurance through scrutiny and challenge and ensures that the significant risks facing the Council have been identified and effective treatment actions are implemented. The Corporate Risk Register is then submitted to Audit Committee for approval which provides effective scrutiny and challenge as part of the Council's corporate governance arrangements.
Development of a Medium-term Financial Strategy (MTFS)	<p>The Council's Medium-term financial outlook highlights significant funding pressure that the Council may face over the next few years. On 24 February 2026 Council agreed a budget for 2026/27 and noted an update to the Medium Term Financial Strategy 2026/27 to 2028/29, which sets out budget projections for this period and showed a projected budget gap of around £12 million by 2028/29 net of approved planning assumptions on Council Tax and utilisation of reserves.</p> <p>The MTFS sets out cost projections for pay and price inflation, debt charges and the impact of demographic changes together with projections of income. As a framework to address the financial challenge, Council approved a Transformation Blueprint which contains five main strategic themes of Following the Money, 21st Century Workforce, Commercialisation and Income Generation, Workplaces of the Future and Multi-Agency Transformation. Within each theme sits a number of individual projects phased over the next two financial years. Council will also continue to explore any options to increase external funding including ongoing discussion with the Scottish Government on funding fast growing Councils.</p>

Looking Ahead

Midlothian Council faces additional pressure of being the fastest growing local authority in Scotland, resulting in greater demand for services with future funding for Local Government likely to remain constrained. The Council's Capital Plan remains under pressure but contains further major investment in the following areas over the coming years:

Capital Expenditure	Commentary
School Infrastructure	<ul style="list-style-type: none"> • Wide-ranging school building, extension and refurbishment programme including a major project at Penicuik High School; • A new 3-18 school at Shawfair; • Replacement Schools for: <ul style="list-style-type: none"> ○ Beeslack Community High School; ○ Mayfield Primary School Campus.
Provision of Care Services	A new care facility in Bonnyrigg which will provide accommodation for those in need of high quality care.
Carriageway and Footway Infrastructure	<ul style="list-style-type: none"> • Continuing investment in improved roads, footpaths and lighting across Midlothian; • As part of the Edinburgh and South East Scotland City Region Deal major investment is also planned in the new A701 Relief Road and A702 link which will support planned investment in new research and technology facilities at Easter Bush.
Social Housing	A continuation of the new build housing programme and upgrading of existing housing, particularly with regard to energy efficiency measures to work towards the Councils carbon neutral target.

The Council has recognised the need for a strategic step change in the form of the Medium-Term Financial Plan together with resource allocation measures that will enable the Council to balance revenue budgets for each financial year.

The Council continues to regularly monitor its financial position and provide full financial updates to the Corporate Management Team and elected members as appropriate, including options on addressing any new budgetary and spending pressures. This may include further use of reserves, reallocation of committed reserves, changes to capital spend, or other cost savings. Management is continuing to engage with the Scottish Government on providing sustainable funding going forward.

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

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

Climate Change

Climate change is one of the Council's strategic priorities, which is detailed in the [Single Midlothian Plan \(SMP\)](#), and is driven by Midlothian's Climate Change Strategy.

The strategy sets out a clear vision and set of objectives, to highlight what we can, and must do to combat climate change and highlights some of the challenges to achieving this. It focuses on a number of themes including:-

- Energy efficiency;
- Recycling and waste;
- Sustainable development;
- Sustainable travel;
- Business processes;
- Carbon management;
- Governance management; and
- Risk.

The themes provide a framework for action but also contain a number of commitments some reflecting existing strategies and plans and others promoting best practice. They complement the targeted actions of the Action Plan and include a commitment to:

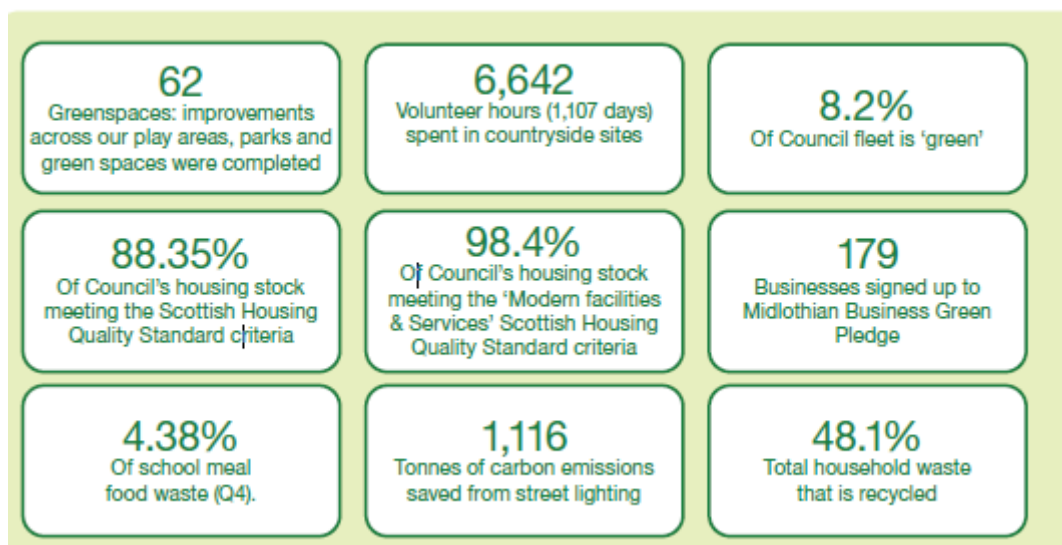
- Establish a Climate Change Citizens' Assembly;
- Raising awareness of climate change and promoting individual and collective action to combat it and make Midlothian "A Great, Green Place to Grow"

- Using green energy to heat and light our estate buildings, making them as energy efficient as possible;
- Increasing our recycling rates and reduce waste;
- Expanding our electric and ultra-low carbon vehicle fleet;
- Adopting the Passivhaus building standard and incorporating "green" and "blue" infrastructure as standard design principles for new development;
- Investigate the feasibility of Zero Carbon Development Zones;
- Delivering the Shawfair low carbon community heating system and investigating options to develop heat networks across the County;
- Accelerating development of the Midlothian Active Travel network including cross-boundary connections for longer distance commuting and leisure routes; and
- accelerating organisational change to extend home working and reduce the need to travel to work.

In order to ensure the prioritisation of climate change action, all actions to tackle climate change are governed by the Councils Cabinet, with annual progress reports being submitted to Corporate Management Team, who is responsible for the Climate Change Strategy, action planning and performance monitoring .

The 2025/26 Outcomes will be published later in the year, however the 2024/25 Outcomes included

2024-25 Outcomes included:



Assessing the risk from current and predicted impacts of climate change is crucial to understanding how we can best respond to a changing climate, a changing environment, and how we may need to shape our services in future. As a Council there is an obvious need to include consideration, in everything we do, of how our current policies, practices and business decisions contribute to climate change or not and risks are highlighted in the Council's Corporate Risk Register.

In order to meet our commitment to achieving net-zero carbon status by 2045 and to successfully implement this strategy, the Council acknowledges the importance of allocating sufficient resources to this end. Not all the actions in the strategy or action plan will require or incur additional capital or revenue spend but this will be a significant issue going forward. Some of the

actions and commitments are ongoing work streams that can, and will be consumed within the current budgets, particularly those actions which relate to procedural and behavioural change. However it will be necessary to commit a dedicated staff resource to ensure that climate change activity is coordinated across the Council and that momentum is reached and maintained to the 2045 target date.

Full details of the Council's annual progress on climate change activities are peer reviewed and published by the [Sustainable Scotland Network](#) in accordance with our Public Bodies Climate Change Duties report requirement. This brings together work from various services and presents the collaborative approach the Council is taking in tackling climate change.

Conclusion

Budget constraints and increasing cost pressures are putting Scotland's councils' finances under a severe strain. COSLA have continued to highlight that funding in the Local Government Finance Settlement falls short of the amount required to protect local services. Adding to the challenge of constrained funding, Midlothian Council continues to face the ongoing impacts of long-standing and growing demographic pressures and the impact of pressured household budgets thus placing increasing pressures on Council resources and demand for its services. Despite these pressures, the Council continues to make significant improvements across a range of service areas and is investing in its asset base to provide essential infrastructure to support the growing population. It is important to appreciate these improvements.

We have concluded the year with financial challenge ahead but with a focus on meeting the challenges identified in the Medium-Term Financial Strategy and the Transformation Blueprint to ensure the Council maintains longer-term financial sustainability.

Acknowledgements

We would like to acknowledge the tremendous effort undertaken in producing the Annual Accounts and express our thanks to colleagues throughout the Council for the significant dedication and commitment shown throughout the year in financial matters.



David Gladwin
Chief Financial Officer
and Section 95 Officer

Dr Grace Vickers
Chief Executive

Councillor Kelly Parry
Leader of the Council

Statement of Responsibilities

The Council's Responsibilities

The Council is required to:

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

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

Councillor Kelly Parry

Leader of the Council

The Chief Financial Officer's Responsibilities

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

In preparing these Annual Accounts, the Chief Financial Officer has:

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

I certify that the financial statements give a true and fair view of the financial position of the Council (and its group) at the reporting date and of the transactions of the Council (and its group) for the year ended 31 March 2026.



David Gladwin

Chief Financial Officer and Section 95 Officer

Annual Governance Statement

Introduction & Executive Summary

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Delivery Good Governance Framework (2016) and the Addendum (May 2025) for the year ended 31 March 2026, 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.

The Governance Statement provides 4 areas of focus for improvements in Governance provides details of the improvements in governance arrangements in the last year and provides a forward look on governance changes that may impact Midlothian Council moving forward.

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' (2016) is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The Framework defines the seven core principles of good governance, namely:

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

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

The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework and the supporting guidance notes for Scottish authorities (November 2016) and was approved by Council in March 2021.

The Council's Governance Framework

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

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

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in the Elected Members Code of Conduct, 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 complements procedures for all of the Council which responds to the outcomes, as appropriate, and reports the results annually.

Professional advice on the discharge of statutory social work duties was provided during the year to the Council by the Head of Adult Services as the Chief Social Work Officer (CSWO). 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

All meetings of the Council and its Committees are held in public with the exception of items for discussion that are exempt under the Local Government (Scotland) Act 1973. All Council and Committee meetings are hybrid and webcast to ensure public access, and recordings can be accessed from the Council's website.

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

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users, including the public consultation on the Medium Term Financial Strategy 2025/26 to 2028/29 reported to the December 2024 Council meeting.

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

The Council's vision, strategic objectives and priorities are set out in the Single Midlothian Plan developed through the Community Planning Partnership (of which the Council is a partner). The Council's Medium Term Financial Strategy and Service Plans outline how Midlothian Council will deliver its contribution to the Single Midlothian Plan. In June 2023 the Council also approved a Transformation Blueprint 2023-2028 to support the Medium Term Financial Strategy and help bridge a projected five-year funding gap. Progress against this blueprint is reported to Council on a quarterly basis along with progress on the Medium Term Financial Strategy which was updated for the period 2026/27 to 2028/29 in December 2025. Progress is also reviewed at 4 weekly BTB's and reported to BTSG as a Standing Item.

Capital investment at a strategic level is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision. During the year the Council approved the Property and Estates Management Plan 2026-36, however it is recognised that there is further requirement to develop and overarching asset management strategy as agreed within the recommendations following the Audit Scotland Best Value Thematic work on Asset Management. .

The Council considered the recommendation of the February 2024 Aether Climate Action Support Report in November 2024 and has instructed a refresh of the Councils Climate Change Strategy.

The Council approved the Economic Growth Strategy 2025-30 in November 2024, which has been reviewed to align with the Scottish Government National Strategy for Economic Transformation and the Edinburgh and South East Scotland City Region Deal Regional Prosperity Framework. An Inclusive Economic Growth Delivery Plan was approved by Council in June 2025.

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

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

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

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

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

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

The roles of officers are defined in agreed job descriptions. Staff performance is reviewed on an annual basis in accordance with the relevant appraisal processes in place during the year. In December 2024 the Council approved the Midlothian Council Workforce Strategy 2024 to 2034 developed using an evidence- based management approach engaging with stakeholders and employees via an employee survey.

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

The Elected Members Induction Programme took place following elections in May 2022 and is periodically supplemented by training events, seminars and briefings. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit.

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

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

The Council updated its Risk Management policy and strategy in August 2022 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. Internal Audit’s assessment in March 2024 was that assurance is substantial in relation to the Council’s Risk Management Policy and application of the policy at a strategic level, however significant further progress is required on the Service level risk management framework.

The Chief Financial Officer (the Section 95 officer) is responsible for the proper administration of all aspects of the Council’s financial affairs including ensuring appropriate advice is given to the Council on all financial matters, in accordance with the CIPFA statement on the Role of the Chief Financial Officer in Local Government.

The Council's system of internal financial control is based on a framework of financial regulations (updated in June 2022), regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. This remains reliant on the staff within the framework to ensure management supervision and accountability are diligently enforced.

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 revised Medium Term Financial Strategy continues to be monitored and updated on a regular basis with the latest 2025/26 to 2028/29 strategy being approved by Council in February 2025. Given the significant fiscal challenges which lie ahead, the Council continues to regularly monitor the Transformation Blueprint workstreams aligned to the Medium Term Financial Strategy. This will then inform the revised service plans, workforce plans and the long term sustainability of services. A Balanced budget was set by Council in February 2025 for the 2025/26 financial year by increasing Council tax by 10% and utilisation of £4.1 million of reserves, with indicative increases of Council tax of, 9%, 8% and 5% in the following 3 financial years and continued utilisation of reserve of £4.1 million in the following 2 years the budget gap by 2028/29 becomes £8.9million. Highlighting the unprecedented financial pressure on the Council and some of the difficult decisions to be made in relation to both Capital and Revenue Budgets to establish a sustainable financial position.

The previous Chief Officer Corporate Solutions carried out a self-assessment against the CIPFA FM code and reported the findings of this to CMT in September 2021 and this was subsequently reported to Audit Committee in December 2021. The Chief Officer Corporate Solutions identified six areas requiring improvement from his review of the CIPFA FM code. Actions identified included improving the resourcing of the Procurement team (Ongoing), updating the Council's Financial Regulations and Directives (Complete – approved at June 2022 Council), putting in place a multi-year financial plan (Ongoing – action relevant to two sections of the FM Code), improving the Council's approach to lessons learned from completed projects (Ongoing), and improving the Council's risk management arrangements (Ongoing). No further Committee update has been provided within the 2025/26 financial year.

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

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

The independent and objective audit opinion of the Chief Internal Auditor (Chief Audit Executive) is stated within the Internal Audit Annual Assurance Report 2024/25. This is based on work carried out by an in-house team, including shared services resources from East Lothian Council for the Chief Internal Auditor, 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 Cabinet and the Performance, Review and Scrutiny Committee for monitoring the achievement of strategic priorities and key performance indicators.

The Annual Accounts and Report sets out the financial position in accordance with relevant accounting regulations.

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

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

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

Improvement Areas of Governance

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

- 1) Adequacy of internal resources within the Midlothian Council Children's Services teams has been highlighted as a cause for concern during 2025/26. The September 2025 Care commission Midlothian Council Fostering Service classified 3 of the 4 key questions as adequate being defined as; where strengths only just outweighed weaknesses the report identified that 4 requirements of which only 1 had been met and from previous requirements 4 had been met and 1 continued to not be met. The Internal Audit of Foster Care and Adoption in November 2025 provided Limited Assurance and noted that foster care and adoption overpayments had been identified within the service and Internal Controls needed to be improved to prevent further overpayments. The General Fund Revenue Budget Financial Monitoring reported to Council in February 2026 identified a £1.6million overspend in External Placements for Children. Plans are being developed to increase internal capacity within the Council and services across the Council are supporting improvements to ensure that requirements are met on a sustainable basis. Improvements will be monitored during 2026/27.
- 2) Governance and Internal Control Processes in relation to Pupil transport have been identified as in need of improvement and review. The November 2025 Internal Audit which provided Limited assurance noted that the control environment for School and Social Work Transport had a number of significant weaknesses in 2024/25, however, the project to improve the arrangements for client transport from May 2024 has achieved a number of substantial milestones. A Cross-Party Working Group has now been implemented for ongoing review of this project and the improvements being made and will continue to meet and monitor the improvements during 2026/27.
- 3) Internal Audits of Devolved School Management and School Funds have identified the need for improvements in ensuring that a Devolved School Management Scheme is finalised and published for Midlothian Council and that adequate and consistent training is provided for School Management in the operation of any published scheme. School

fund guidance, linked to an appropriate control framework is required to be implemented. Implementation of these key guidelines and schemes with an appropriate training programme will be monitored in 2026/27 to provide a stable framework for School finances. New Senior Management in Education are now taking the

- 4) During the year there has been insufficient recording and reporting by services on service level risk registers and business continuity plans. There is a requirement to ensure that there is a one system approach to aligning business continuity planning across NHS and Midlothian Council including cybersecurity planning to ensure all critical services can be maintained at times of incidents. Training is being delivered to staff within services in relation to risk management. Outstanding Internal Audit recommendations to report to Audit Committee on the delivery of service risk registers and the review of business continuity resourcing, and completion of plans should result in an improvement in the control environment. A resourcing plan has been developed to deliver these improvements.

Prior Year Improvement Areas of Governance Implemented

The 2024/25 Annual Governance Statement for Midlothian Council contained the following areas of improvement which have been improved and progress is noted against each of the prior year improvement areas where this has been noted:

- 1) The Medium-Term Financial Strategy 2025/26 to 2028/29 approved in October 2024 highlighted that the budget gap for 2025/26 incorporating planned use of service concession retrospection and a 5% Council Tax increase was projected to £9.4million rising to £20.6million by 2028/29. A Balanced budget was set by Council in February 2025 for the 2025/26 financial year by increasing Council tax by 10% and utilisation of £4.1 million of reserves, with indicative increases of Council tax of, 9%, 8% and 5% in the following 3 financial years and continued utilisation of reserve of £4.1million in the following 2 years the budget gap by 2028/29 becomes £8.9million. The MTFS approved by Council in February 2026 utilised the same assumptions of a 9% Council tax increase and a utilisation of £4.1million of reserves to establish a balanced budget for the 2026/27 financial year demonstrating that appropriate medium term financial planning is in place. However, the revised budget gap for 2028/29 has increased to £11.8million and highlights the continued need to implement the savings elements of the transformation blueprint to help achieve a medium to long term sustainable financial plan which are being regularly monitored.
- 2) The Procurement Service continued to face recruitment challenges and despite multiple recruitment attempts was unable to secure a permanent Procurement Manager for 2024/25. A permanent Procurement Manager was appointed at the end April 2025, and the work plan was being developed for improvements to the service for the 2025/26 reporting year. Issues arising from the reduced team capacity are the off contract spend, and non-contracted spend within the organisation, chief officers are continuing to report impacts to the delivery of services. Expired contracts and off contracts spend is being managed through regular review at Budget Boards to ensure that the risk is managed, and the appropriate remedial action is being taken, with oversight from the Executive Director and Chief Officers. In addition, commissioning and contract management are both focused areas of the Transformation Blueprint. The redesign of the Procurement service Operational model continued during 2025/26 and all posts have been recruited to,

however further work in the development of a Procurement Strategy and the rollout of a comprehensive training plan for all officers is still under development.

- 3) Capital plan affordability continues to be worked through as part of the Capital Plan prioritisation exercise, which was considered by Council in February 2025, alongside approval of new projects to the General Services Capital Plan and noting the expenditure and funding levels shown in the GSCP for 2024/25 to 2028/29 prior to reaching a financially sustainable outcome. Within that paper it is noted that in developing the strategy and taking cognisance of the longer term affordability gap it is clear that a number of potential projects which are currently included will only be able to be progressed if they can be delivered on a spend to save basis or where they can be delivered on a cost neutral basis or through alternative funding mechanisms. Whilst approval for fully funded learning estates projects has been progressed, delays in decision to critical projects may result in breaches of capacity to provide education provision across the council area. The condition of certain schools is deteriorating, and significant investment is required in order to ensure all schools meet at least condition B standard. Changes to the leadership and management of the learning estate delivery programme are being worked through. It is also noted that there is ongoing development of the Council's asset management across fleet, property and infrastructure to manage and invest in the portfolios effectively. During the year there has been good progress with the Learning Estate Strategy, including new builds, refurbishment, upgrades, expansion and backlog maintenance. Capital investment has been secured however further work is required to progress the Asset Management Strategy and Learning Estate Management Plan within the realms of affordability in addition further development of the asset management including fleet, property and transport is still required.
- 4) Deficiencies in the control environment for Council Tax within systems controls and monitoring of refunds are being resolved in conjunction with the systems supplier and that ongoing monitoring will be implemented.

Look forward on Governance in 2026/27

During 2026/27 the following key areas of governance will be developed as part of the ongoing programme of improvement and development for the Council:

- Midlothian Local development Plan 2 is progressing towards finalisation and will impact the development of services across the Council area which may require review of governance, risk and control processes.
- Following successful recruitment and appointment of the Executive Director Children, Young People & Partnerships the ongoing recruitment of the Chief Officer Place and the governance arrangements for services across any impacted areas of the Council will be concluded to finalise areas of responsibility.
- Updates and improvement to the policy and procedures framework and the Best Value framework across the Council will be completed in year including a refresh of the Whistleblowing policy as required by revised legislation.
- The refresh of the Councils Local Code of Corporate Governance will also be put forward for Council approval.

Conclusion and Opinion on Assurance

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

Dr Grace Vickers

Chief Executive

Kelly Parry

Leader of the Council

Remuneration Report

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 employee exit packages agreed during the year.

All of the information disclosed in the tables within this Remuneration Report, with the exception of the Trade Union Facility Time statement, is subject to audit by Audit Scotland. The other sections of the Remuneration Report are reviewed by Audit Scotland to ensure they are consistent with the financial statements.

Remuneration of Councillors

The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (Scottish Statutory Instrument Number 2007/183), as amended. The Regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as Leader of the Council, Provost, Senior Councillors or Councillors. The Leader of the Council and the Provost cannot be the same person for the purposes of payment of remuneration. A Senior Councillor is a Councillor who holds a significant position of responsibility within the Council's political structure.

The Regulations permit the Council to remunerate one Leader of the Council and one Provost. For 2025/26 the Regulations set the salary for the Leader of Midlothian Council at £50,063 (2024/25 £35,580) and the salary of the Provost was set at £37,548 (2024/25 £26,686), the maximum level.

The Regulations also set out the remuneration that may be paid to Senior Councillors and the total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Council is 75% of the total yearly amount payable to the Leader of the Council. For 2025/26, the maximum salary which could be paid to a Senior Councillor was £37,548 (2024/25 £26,686) with the maximum number of senior Councillors set at eight (excluding the Provost and the Leader). The total remuneration for Senior Councillors (excluding the Provost and the Leader) should not exceed £254,117 (2024/25 £192,128). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

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

In addition to the Senior Councillors of the Council, the regulations also set out the remuneration payable to Councillors with the responsibility of a Convenor or a Vice-Convenor 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 Convenor or Vice-Convenor is a member. The Council is reimbursed by the Joint Board for any additional remuneration paid to a member from being a Convenor or Vice-Convenor of a Joint Board.

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

Councillor Name and Responsibility	Date From	Date To	Salary 2025/26	Expenses 2025/26	Total Remuneration 2025/26	Total Remuneration 2024/25
Kelly Parry Leader of the Council	Apr 2025	Mar 2026	50,063	0	50,063	£35,580
Debbi McCall Provost	Apr 2025	Mar 2026	37,548	760	38,308	£27,133
David Virgo Chair of General Purposes Committee	Apr 2025	Mar 2026	37,548	39	37,587	£24,054
Dianne Alexander Cabinet Member	Apr 2025	Mar 2026	37,548	210	37,758	£24,093
Connor McManus Cabinet Member	Apr 2025	Mar 2026	37,548	39	37,587	£24,052
Ellen Scott Cabinet Member	Apr 2025	Mar 2026	37,548	0	37,548	£24,016
Stuart McKenzie Cabinet Member	Apr 2025	Mar 2026	37,548	0	37,548	£24,016
Derek Milligan Chair of Performance, Review and Scrutiny Committee	Apr 2025	Mar 2026	37,548	50	37,598	£24,074
Russell Imrie Chair of Planning Committee	Apr 2025	Mar 2026	37,548	1,669	39,217	£25,343
Colin Cassidy Depute Leader and Group Leader	Apr 2025	Mar 2026	37,548	0	37,548	£24,016
Total			387,995	2,767	390,762	£256,377

The total remuneration of all the Council's elected members (including Senior Councillors above) and including all business expenses for 2025/26 was £0.599 million (2024/25 £0.428 million). Detailed figures for these costs are available on the Council's website, [members' remuneration details for 2025/26](#).

Remuneration of Employees

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

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

- **Teaching Staff** – The Scottish Negotiating Committee for Teachers (SNCT);
- **Other Staff** – The Scottish Joint Committee (SJC).

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

Senior Employee Name and Responsibility	Date From	Date To	Total Remuneration 2025/26	Total Remuneration 2024/25
Grace Vickers Chief Executive	Apr 2025	Mar 2026	£149,648	£137,928
Grace Vickers Returning Officer	Apr 2025	Mar 2026	£0	£545
Morag Barrow (1) Joint Director: Health and Social Care	Apr 2025	Mar 2026	£62,700	£59,048
Kevin Anderson Executive Director: Place	Apr 2025	Mar 2026	£125,364	£120,542
Fiona Robertson (2) Executive Director: Children, Young People and Communities	Apr 2025	Nov 2026	£89,269	£120,542
Derek Oliver (2) Executive Director: Children, Young People and Communities	Dec 2025	Mar 2026	£41,788	N/A
David Gladwin Chief Financial Officer (S95 Officer)	Apr 2025	Mar 2026	£105,966	£101,890
Nick Clater Head of Adult Social Care (Chief Social Work Officer)	Apr 2025	Mar 2026	£105,966	£42,454
Michelle Strong (2) Chief Education Operating Officer (Chief Education Officer)	Dec 2025	Mar 2026	£35,322	N/A
Alan Turpie Legal Services Manager (Monitoring Officer)	Apr 2025	Mar 2026	£85,095	£81,834
Total			£801,118	£664,783

Notes:

1. Post joint funded with NHS Lothian, full time equivalent £125,401,
2. Derek Oliver assumed the Executive Director: Children, Young People and Communities role on an acting basis from 1 Dec 2025, this was made permanent 31 Mar 2026. He replaces Fiona Robertson, who retired from the role 30 Nov 2025. The full time equivalent for this role is £125,364. Michelle Strong assumed the role of Chief Education Officer from 1 Dec 2025 (full time equivalent £105,966), which was also previously held by Fiona Robertson.

Subsidiary Entities

None of our subsidiaries have remunerated employees.

Pension Benefits

Pension benefits for Councillors and local government employees are provided through the Local Government Pension Scheme (LGPS), which is administered by the Lothian Pension Fund. From 1 April 2015, this became a career average 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 2019, 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 2025/26	Contribution Rate
On earnings up to and including £27,500	5.5%
On earnings above £27,501 and up to £33,600	7.25%
On earnings above £33,601 and up to £46,100	8.5%
On earnings above £46,101 and up to £61,400	9.5%
On earnings of £61,401 and above	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 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	1/49 th Pensionable pay each year	n/a
From 1 April 2009 to 31 March 2015	Final Salary	1/60 th Pensionable pay each year	n/a
Prior to April 2009	Final Salary	1/80 th Pensionable pay each year	3/80 th Final pensionable salary and years of pensionable service

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

The pension entitlements for Senior Councillors for the year to 31 March 2026 are shown in the tables below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

Senior Councillor In-year Pension Contributions

Councillor Name and Responsibility	Date From	Date To	Year to 31 Mar 2026	Year to 31 Mar 2025
Kelly Parry Leader of the Council	Apr 2025	Mar 2026	£8,811	£6,262
Debbi McCall Provost	Apr 2025	Mar 2026	£6,608	£4,696
David Virgo Chair of General Purposes Committee	Apr 2025	Mar 2026	£6,608	£4,227
Connor McManus Cabinet Member	Apr 2025	Mar 2026	£6,608	£4,227
Ellen Scott Cabinet Member	Apr 2025	Mar 2026	£6,608	£4,227
Stuart McKenzie Cabinet Member	Apr 2025	Mar 2026	£6,608	£4,227
Colin Cassidy Depute Leader and Group Leader	Apr 2025	Mar 2026	£6,608	£4,227
Total			£48,459	£32,093

Senior Councillors Accrued Pension Benefits

Senior Councillor	Pension at 31 March 2026 £000	Lump Sum at 31 March 2026 £000	Pension Difference from 31 March 2025 £000	Lump Sum Difference from 31 March 2025 £000
K Parry	7	0	2	0
D McCall	5	0	1	0
D Virgo	2	0	1	0
C McManus	2	0	1	0
E Scott	2	0	1	0
S McKenzie	3	0	1	0
C Cassidy	5	0	1	0
Total	26	0	8	0

The pension entitlements for Senior Employees for the year to 31 March 2026 are shown in the tables below, together with the contribution made by the Council to each Senior Employees (as defined in the regulations) pension during the year.

Senior Employee In-year Pension Contributions

Senior Employee Name and Responsibility	Date From	Date To	Year to 31 Mar 2026	Year to 31 Mar 2025
Grace Vickers Chief Executive	Apr 2025	Mar 2026	£26,338	£24,371
Morag Barrow (1) Joint Director: Health and Social Care	Apr 2025	Mar 2026	£14,108	£12,241
Kevin Anderson Executive Director: Place	Apr 2025	Mar 2026	£22,064	£21,215
Fiona Robertson (2) Executive Director: Children, Young People and Communities	Apr 2025	Nov 2026	£14,709	£21,215
Derek Oliver (2) Executive Director: Children, Young People and Communities	Dec 2025	Mar 2026	£7,355	N/A
David Gladwin Chief Financial Officer (S95 Officer)	Apr 2025	Mar 2026	£18,650	£17,933
Nick Clater Head of Adult Social Care (Chief Social Work Officer)	Apr 2025	Mar 2026	£18,650	£7,472
Michelle Strong (2) Chief Education Operating Officer (Chief Education Officer)	Dec 2025	Mar 2026	£6,217	N/A
Alan Turpie Legal Services Manager (Monitoring Officer)	Apr 2025	Mar 2026	£14,977	£14,403
Total			£143,068	£118,850

Notes:

1. Post joint funded with NHS Lothian, full time equivalent £28,215,
2. Derek Oliver assumed the Executive Director: Children, Young People and Communities role on an acting basis from 1 Dec 2025, this was made permanent 31 Mar 2026. He replaces Fiona Robertson, who retired from the role 30 Nov 2025. The full time equivalent for this role is £22,064. Michelle Strong assumed the role of Chief Education Officer from 1 Dec 2025 (full time equivalent £18,650), which was also previously held by Fiona Robertson.

Senior Employees Accrued Pension Benefits

Senior Councillor	Pension at 31 March 2026 £000	Lump Sum at 31 March 2026 £000	Pension Difference from 31 March 2025 £000	Lump Sum Difference from 31 March 2025 £000
G Vickers	30	0	4	0
K Anderson	80	124	5	5
F Robertson	22	0	2	0
D Oliver	47	41	n/a	n/a
M Strong	8	0	n/a	n/a
D Gladwin	53	66	3	3
M Barrow	34	86	4	4
A Turpie	50	71	3	3
N Clater	47	0	4	0
Total	371	388	25	15

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

Remuneration of Other Employees by Pay Bands

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

Total Employees 2024/25	Remuneration Band	Non-teaching Employees 2025/26	Teaching Employees 2025/26	Total Employees 2025/26
119	£50,000-£54,999	38	385	423
88	£55,000-£59,999	39	64	103
56	£60,000-£64,999	14	57	71
63	£65,000-£69,999	14	31	45
42	£70,000-£74,999	8	43	51
18	£75,000-£79,999	11	25	36
14	£80,000-£84,999	1	21	22
2	£85,000-£89,999	6	6	12
3	£90,000-£94,999	0	4	4
6	£100,000-£104,999	3	1	4
0	£105,000-£109,999	4	1	5
1	£110,000-£114,999	1	0	1
0	£115,000-£119,999	0	1	1
2	£120,000-£124,999	0	0	0
0	£125,000-£129,999	1	0	1
1	£135,000-£139,999	0	0	0
0	£145,000-£149,999	1	0	1
415	Total	141	639	780

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 incurred by the Council for voluntary redundancy packages in 2025/26 was as follows:

Total Employees 2024/25	Total Cost 2024/25 £000	Remuneration Band	Total Employees 2025/26	Total Cost 2025/26 £000
3	49	£10,000-£19,999	0	0
3	149	£20,000 +	1	22
6	198	Total	1	22

Trade Union Facility Time Statement

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

For the reporting year 2025/26, the equivalent of 5.6 FTE employees (across fourteen individuals) of paid time facility was made available. The proportion of their working hours spent on facility time is as follows:

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

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

Total cost of facility time	£259,393
Total pay bill	£214,647,024
Percentage Total	0.12%

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

Councillor Kelly Parry
Leader of the Council

Dr Grace Vickers
Chief Executive

Independent Auditors Report

Independent Auditor's Report to the members of Midlothian Council and the Accounts Commission

Under arrangements approved by the Commission for Local Authority Accounts in Scotland, the auditor with responsibility for the audit of the annual accounts of Midlothian Council for the year-end 31 March 2026 is:

Claire Gardiner
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

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

Expenditure and Funding Analysis

The Expenditure and Funding Analysis demonstrates how funding available to the Council (government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices are presented more fully in the Comprehensive Income and Expenditure Statement (CIES).

2024/25				2025/26		
Net expenditure chargeable to the General Fund and HRA Balances £000	Adjustments (see note 6) £000	Net expenditure in the CIES £000	Service	Net expenditure chargeable to the General Fund and HRA Balances £000	Adjustments (see note 6) £000	Net expenditure in the CIES £000
1,995	20	2,015	Management & Members	3,391	(710)	2,681
19,092	426	19,518	Children's Services, Partnerships & Communities	23,845	305	24,150
139,454	27,190	166,644	Education	155,168	19,845	175,013
706	10	716	Adult Health & Social Care (Non-Delegated)	717	0	717
69,031	931	69,962	Midlothian Integrated Joint Board	74,575	553	75,128
46,758	8,096	54,854	Place	41,357	16,025	57,382
18,313	1,497	19,810	Corporate Solutions	18,147	1,614	19,761
(14,668)	65,471	50,803	Housing Revenue Account	(15,903)	29,375	13,472
613	0	613	Joint Boards	644	0	644
309	69	378	Central Costs	707	0	707
923	0	923	Non-distributable Costs	788	0	788
282,526	103,710	386,236	Net Cost of Services	303,436	67,007	370,443
(261,062)	(48,762)	(309,824)	Other income and expenditure	(294,932)	(55,552)	(350,484)
21,464	54,948	76,412	(Surplus) or Deficit	8,504	11,455	19,959

(85,046)	Opening General Fund & HRA Balance	(63,939)
21,464	Less/plus (Surplus) or Deficit on General Fund & HRA Balance in year	8,504
(357)	Transfers to/from other Statutory Reserves	775
(63,939)	Closing General Fund and HRA Balance at 31 March*	(54,660)

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

Principal Financial Statements

The annual accounts summarise the Council's transactions for the year, its year-end position at 31 March 2026 and its cash flows. The annual accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26 (the Code), which is based on International Financial Reporting Standards (IFRS's). 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). Council's raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the *Expenditure and Funding Analysis* and the *Movement in Reserves Statement*.
- Movement in Reserves Statement** – this shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves.' The statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The net increase/decrease line shows the statutory General Fund balance and Housing Revenue Account (HRA) balance movements in the year following those adjustments.
- Balance Sheet** – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the 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 Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the *Movement in Reserves Statement* line 'adjustments between accounting basis and funding basis under regulations.'
- Cash Flow Statement** – this shows the changes in cash and cash equivalents of the Council during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of the services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Group and Council Comprehensive Income and Expenditure Statement

2024/25					2025/26			
Gross Expenditure £000	Gross Income £000	Net Expenditure or (Income) £000	Group Net Expenditure £000	Service	Gross Expenditure £000	Gross Income £000	Net Expenditure or (Income) £000	Group Net Expenditure £000
2,173	(158)	2,015	2,015	Management and Members	2,915	(234)	2,681	2,681
22,054	(2,536)	19,518	19,518	Children's Services, Partnerships and Communities	26,322	(2,172)	24,150	24,150
177,943	(11,299)	166,644	166,644	Education	186,470	(11,457)	175,013	175,013
1,021	(305)	716	716	Adult Health and Social Care (Non-Delegated)	1,040	(323)	717	717
164,338	(94,376)	69,962	69,962	Midlothian Integration Joint Board	177,363	(102,235)	75,128	75,128
104,046	(49,192)	54,854	54,854	Place	110,851	(53,469)	57,382	57,382
38,136	(18,326)	19,810	19,810	Corporate Solutions	35,934	(16,173)	19,761	19,761
87,309	(36,506)	50,803	50,803	Housing Revenue Account	51,572	(38,100)	13,472	13,472
613	0	613	613	Lothian Valuation Joint Board	644	0	644	644
378	0	378	378	Central Costs	707	0	707	707
923	0	923	855	Non-Distributable Costs	788	0	788	781
598,934	(212,698)	386,236	386,168	Cost of Services	594,606	(224,163)	370,443	370,436
		0	98	Associates and Joint Ventures accounted for on an Equity Basis (Note 33)			0	(416)
		45	45	Other Operating (Income) or Expenditure (Note 9)			(217)	(217)
		6,543	6,543	Financing and Investment Income and Expenditure (Note 10)			1,274	1,274
		(316,412)	(316,412)	Taxation and Non-specific Grant Income and Expenditure (Note 11)			(351,541)	(351,541)
		76,412	76,442	(Surplus) or Deficit on the Provision of Services (Note 13)			19,959	19,536
		(18,004)	(18,004)	(Surplus)/deficit on Revaluation of Property, Plant and Equipment Assets			(20,971)	(20,971)
		(488)	(488)	(Surplus)/deficit on Financial Assets Measured at Fair Value through Other Comprehensive Income			(358)	(358)
		4,896	4,896	Remeasurement of the Net Defined Benefit Liability/(Asset)			18,107	18,107
		(514)	(545)	Other (Gains)/Losses			2,363	3,858
		(14,110)	(14,141)	Other Comprehensive (Income) and Expenditure			(859)	636
		62,302	62,301	Total Comprehensive (Income) and Expenditure			19,100	20,172

Group and Council Movement in Reserves Statement

	General Fund	Housing Revenue Account	Capital Fund	Repairs & Renewals Fund	Total Usable Reserves	Unusable Reserves	Total Council Reserves	Councils Share of Reserves of Associates, Subsidiaries & Joint Ventures	Total Group Reserves
Current Year	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2025	(32,029)	(31,910)	(17,600)	(3,756)	(85,295)	(647,088)	(732,383)	909	(731,474)
Opening Balance Adjustment	0	0	0	0	0	0	0	(420)	(420)
Revised Balance at 31 March 2025	(32,029)	(31,910)	(17,600)	(3,756)	(85,295)	(647,088)	(732,383)	489	(731,894)
Movement in Reserves during 2025/26									
Total comprehensive income and expenditure	(3,292)	23,251	(732)	0	19,227	(127)	19,100	1,072	20,172
Adjustments between accounting basis and funding basis under regulations (Note 7)	13,133	(21,583)	0	0	(8,450)	8,450	0	0	0
Adjustment to the statutory repayment of debt for service concession arrangements – permitted flexibility	(3,005)	0	0	0	(3,005)	3,005	0	0	0
Transfers to/(from) other statutory reserves	775	0	0	(775)	0	0	0	0	0
(Increase)/Decrease in Year	7,611	1,668	(732)	(775)	7,772	11,328	19,100	1,072	20,172
Balance at 31 March 2026 Carried Forward	(24,418)	(30,242)	(18,332)	(4,531)	(77,523)	(635,760)	(713,283)	1,561	(711,722)

	General Fund	Housing Revenue Account	Capital Fund	Repairs & Renewals Fund	Total Usable Reserves	Unusable Reserves	Total Council Reserves	Councils Share of Reserves of Associates, Subsidiaries & Joint Ventures	Total Group Reserves
Comparative Year	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2024	(46,338)	(33,182)	(17,242)	(4,113)	(100,875)	(693,810)	(794,685)	910	(793,775)
Opening Balance Adjustment	(5,526)	0	0	0	(5,526)	5,526	0	0	0
Revised Balance at 31 March 2024	(51,864)	(33,182)	(17,242)	(4,113)	(106,401)	(688,284)	(794,685)	910	(793,775)
Movement in Reserves during 2024/25									
Total comprehensive income and expenditure	16,311	60,101	(358)	0	76,054	(13,752)	62,302	(1)	62,301
Adjustments between accounting basis and funding basis under regulations (Note 7)	6,677	(58,829)	0	0	(52,152)	52,152	0	0	0
Adjustment to the statutory repayment of debt for service concession arrangements – permitted flexibility	(2,796)	0	0	0	(2,796)	2,796	0	0	0
Transfers to/(from) other statutory reserves	(357)	0	0	357	0	0	0	0	0
(Increase)/Decrease in Year	19,835	1,272	(358)	357	21,106	41,196	62,302	(1)	62,301
Balance at 31 March 2025 Carried Forward	(32,029)	(31,910)	(17,600)	(3,756)	(85,295)	(647,088)	(732,383)	909	(731,474)

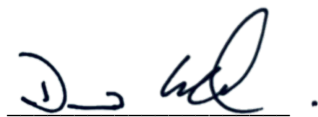
Group and Council Balance Sheet

31 Mar 25	31 Mar 25		31 Mar 26	31 Mar 26	
Midlothian Council £000	Group £000		Midlothian Council £000	Group £000	Notes
1,178,614	1,178,614	Property, Plant and Equipment	1,210,359	1,210,359	14
52,394	52,394	Infrastructure Assets	59,485	59,485	15
507	507	Heritage Assets	497	497	N/M*
448	448	Intangible Assets	306	306	N/M*
3,756	3,756	Long-term Debtors	4,531	4,531	N/M*
16,604	6,404	Long-term Investments	16,961	8,246	16
0	9,111	Investments in Associates and Joint Ventures	0	6,967	33
1,252,323	1,251,234	Long-term Assets	1,292,139	1,290,391	
70	70	Short-term Investments	0	0	16
810	810	Assets Held for Sale	496	496	N/M*
985	985	Inventories	1,113	1,113	N/M*
28,878	28,943	Short-term Debtors	47,010	47,076	18
26,878	26,878	Cash and Cash Equivalents	30,535	30,535	24
57,621	57,686	Current Assets	79,154	79,220	
(5,015)	(5,015)	Short-term Borrowing	(22,045)	(22,045)	16
(59,717)	(59,602)	Short-term Creditors	(54,509)	(54,388)	20
(1,005)	(1,005)	Provisions	(1,103)	(1,103)	N/M*
(46,055)	(46,055)	Grants Received in Advance	(51,693)	(51,693)	21
(111,792)	(111,677)	Current Liabilities	(129,350)	(129,229)	
(377,696)	(377,696)	Long-term Borrowing	(445,309)	(445,309)	16
		Other Long-term Liabilities			
(81,564)	(81,564)	• PPP Contracts	(77,091)	(77,091)	34
(76)	(76)	• Leases	(136)	(136)	33
(6,433)	(6,433)	• Pension Liability	(6,124)	(6,124)	35/36
(465,769)	(465,769)	Long-term Liabilities	(528,660)	(528,660)	
732,383	731,474	Net Assets	713,283	711,722	
85,295	84,480	Usable Reserves	77,523	76,047	22
647,088	646,994	Unusable Reserves	635,760	635,675	23
732,383	731,474	Total Reserves	713,283	711,722	

*N/M – Non-material therefore supporting note not required.

The unaudited accounts were authorised for issue on 22 June 2026.

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 2026, and its income and expenditure for the year ended 31 March 2026.



David Gladwin

Chief Financial (S95) Officer

Group and Council Cash Flow Statement

2024/25	2024/25		2025/26	2025/26
Midlothian Council £000	Group £000		Midlothian Council £000	Group £000
(76,412)	(76,442)	Net surplus/(deficit) on the provision of services	(19,959)	(19,536)

		Operating Activities		
		Adjustments to the surplus or deficit on the provision of services for non-cash movements:		
48,931	48,931	Depreciation	58,366	58,366
50,705	50,705	Downward valuations	20,754	20,754
50	50	Amortisation	149	149
9,313	9,310	(Increase)/decrease in debtors	(9,470)	(9,470)
9,440	9,447	Increase/(decrease) in creditors	(1,801)	(1,795)
(12)	(12)	(Increase)/decrease in inventories	(128)	(128)
(6,075)	(6,075)	Movement in pension liability	(18,416)	(18,416)
573	573	Carrying amounts of non-current assets sold or derecognised	1,037	1,037
(289)	(263)	Other non-cash items charged to the net surplus or deficit on the provision of services	98	(331)
112,636	112,666	Total Non-cash Movements	50,589	50,166
		Adjustments to the surplus or deficit on the provision of services for investing and financing activities:		
30,000	30,000	Proceeds from short and long-term deposits	0	0
(528)	(528)	Proceeds from sale of property, plant and equipment and intangible assets	(1,153)	(1,153)
(28,231)	(28,231)	Any other items for which the cash effects are investing or financing cash flows	(38,185)	(38,185)
1,241	1,241	Total Investing and Financing Activities	(39,338)	(39,338)
113,877	113,907	Net Cash Flows from Operating Activities	(8,708)	(8,708)

		Investing Activities		
(100,853)	(100,853)	Purchase of property, plant and equipment and intangible assets	(102,563)	(102,563)
(4,590)	(4,590)	Purchase of short and long-term deposits	0	0
528	528	Proceeds from sale of property, plant and equipment and intangible assets	1,153	1,153
32,259	32,259	Other receipts from investing activities	34,811	34,811
(72,656)	(72,656)	Net Cash Flows from Investing Activities	(66,599)	(66,599)

		Financing Activities		
40,000	40,000	Cash receipts from short and long-term borrowing	100,000	100,000
(4,165)	(4,165)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PPP contracts	(4,723)	(4,723)
155	155	Other receipts from financing activities	108	108
(1,426)	(1,426)	Repayments of short and long-term borrowing	(16,421)	(16,421)
34,564	34,564	Net Cash Flows from Financing Activities	78,964	78,964

(627)	(627)	Net Increase/(Decrease) in Cash and Cash Equivalents	3,657	3,657
27,505	27,505	Cash and Cash Equivalents at 1 April	26,878	26,878
26,878	26,878	Cash and Cash Equivalents at 31 March (Note 19)	30,535	30,535

The cash flow for operating activities include the following items:

		Interest Paid and Received		
5,124	5,124	Interest Received	3,881	3,881
(20,547)	(20,547)	Interest Paid	(21,114)	(21,114)

Notes to the Accounts

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

The Council's Annual Accounts for 2025/26 have been prepared on a going concern basis. The concept of a going concern assumes that the Council's functions and services will continue in operational existence for the foreseeable future. The provisions in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their annual accounts on a going concern basis of accounting. In accordance with the CIPFA Code of Local Government Accounting (2025/26), the Council is required to prepare its annual accounts on a going concern basis unless informed by the relevant national body of the intention for dissolution without transfer of services or function to another entity. The accounts are prepared on the assumption that the Council will continue in operational existence for the foreseeable future.

1. Accounting Policies

General Principles

The statement of accounts summarise the Council's transactions for the 2025/26 financial year and its position for the year-end of 31 March 2026. The Council is required to prepare an annual statement of accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2025/26, supported by International Financial Reporting Standards (IFRS) and the statutory guidance issued under section 12 of the 2003 Act.

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

Accruals of Income and Expenditure

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

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

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

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid deposits that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

Prior Period Adjustments, Changes in Accounting Policies, 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 year adjustment.

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

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

Charges to Revenue for Non-current Assets

Services and support services are charged an accounting estimate of the cost of holding non-current assets during the year. This comprises:

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement, equal to an amount calculated on a prudent basis determined by the Council in accordance with the statutory Repayment of Loans Fund Advances. This is known as the Loans Fund Principal Repayment. Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by the Loans Fund Principal Repayments in the General Fund balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

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 wages and salaries, paid annual leave, paid sick leave and overtime 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 that employees can carry forward into the next financial year. The accrual is made at the wages and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment when the Council can demonstrate they can no longer withdraw the offer of those benefits to an officer or group of officers or making an offer to encourage voluntary severance.

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

Post-employment benefits

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

- The Teachers' pension scheme, administered by the Scottish Government;
- The Local Government Pensions Scheme, administered by the Lothian Pension Fund.

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

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

The Local Government Pension Scheme

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

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

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

- Service cost comprising:
 - **Current service cost** - the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
 - **Past service cost** - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs;
 - **Net interest on the net defined liability (asset), i.e. net interest expense for the Council** - the change during the period in the net defined liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Remeasurements comprising:
 - **The return on plan assets** – excluding amounts included in net interest on the net defined benefit 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 pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits earned by employees.

Discretionary benefits

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

Events After the Reporting Period

Events after the Balance Sheet reporting period are those events, both favourable and unfavourable, that occur between the Balance Sheet date and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

Financial Instruments

Financial Liabilities

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

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund or Housing Revenue Account balances to be spread over future years. In

accordance with regulations/statutory guidance, the Council spreads the gain or loss over the remaining financial years of the original loan term, starting from the current financial year through to and including the year in which the loan would have been repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund balance is managed by a transfer to or from the financial instruments adjustment account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. The Council holds financial assets measured at:

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

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified at 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).

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

Financial assets measured at amortised cost

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

Any gains and losses that arise on de-recognition of a financial asset are credited or debited to the financing and investment income and expenditure line in the CIES.

Expected Credit Loss Model

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

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

Financial assets measured at fair value through other comprehensive income

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

Fair value measurement of financial assets

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

- **Instruments with quoted market prices** – the market price;
- **Other instruments with fixed determinable payments** – discounted cash flow analysis.

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

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

Any gains and losses that arise on de-recognition of the asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

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

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

Government Grants and Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or taxation and non-specific grant income and expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

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.

Leases

The council as lessee

The Council classifies contracts as leases based on their substance. Contracts and parts of contracts, including those described as contracts for services, are analysed to determine whether they convey the right to control the use of an identified asset, through the rights both to obtain substantially all the economic benefits or service potential from that asset and to direct its use. The Code expands the scope of IFRS 16 Leases to include arrangements with nil consideration, peppercorn or nominal payments.

Initial Measurement

Leases are recognised as right-of-use assets with a corresponding liability at the date from which the leased asset is available for use (or IAS 16 transition date, if later). The leases are typically for fixed periods in excess of one year but may have extension options.

The Council recognises lease liabilities measured at the present value of lease payments, discounting by applying the Council's incremental borrowing rate wherever the interest rate implicit in the lease cannot be determined. Lease payments included in the measurement of the lease liability include:

- Fixed payments, including in-substance fixed payments;
- Variable lease payments that depend on an index or rate, initially measured using the prevailing index or rate as at the adoption date;
- Amounts expected to be payable under a residual value guarantee;

- The exercise price under a purchase option that the Council is reasonably certain to exercise;
- Lease payments in an optional renewal period if the Council is reasonably certain to exercise an extension option;
- Penalties for early termination of a lease, unless the Council is reasonably certain not to terminate early.

The right-of-use asset is measured at the amount of the lease liability, adjusted for any prepayments made, plus any direct costs incurred to dismantle and remove the underlying asset or restore the underlying asset on the site on which it is located, less any lease incentives received. However, for peppercorn, nominal payments or nil consideration leases, the asset is measured at fair value.

Subsequent Measurement

The right-of-use asset is subsequently measured using the fair value model. The Council considers the cost model to be a reasonable proxy except for:

- Assets held under non-commercial leases;
- Leases where rent reviews do not necessarily reflect market conditions;
- Leases with terms of more than five years that do not have any provision for rent reviews;
- Leases where rent reviews will be at periods of more than five years.

For these leases, the asset is carried as a revalued amount. In these financial statements, right-of-use assets held under index-linked leases have been adjusted for changes in the relevant index, while assets held under peppercorn nil consideration leases have been valued using market prices or rentals for equivalent land and properties.

The right-of-use asset is depreciated straight-line over the shorter period of the remaining lease term and useful life of the underlying asset as at the date of adoption.

The lease liability is subsequently measured at amortised cost, using the effective interest method. The liability is remeasured when:

- There is a change in future lease payments arising from a change in index or rate;
- There is a change in the group's estimate of the amount expected to be payable under a residual value guarantee;
- The Council changes its assessment of whether it will exercise a purchase, extension or termination option, or;
- There is a revised in-substance fixed lease payment.

When such remeasurement occurs, a corresponding adjustment is made to the carrying amount of the right-of-use asset, with any further adjustment required from remeasurement being recorded in the income statement.

Low Value and Short Lease Exemption

As permitted by the code, the Council excludes leases:

- For low-value items that cost less than £10,000 when new, provided they are not highly dependent on or integrated with other items, and;
- With a term shorter than twelve months (comprising the non-cancellable period plus any extension options that the authority is reasonably certain to exercise and any termination options that the authority is reasonably certain not to exercise).
- that the authority is reasonably certain not to exercise).

Lease Expenditure

Expenditure in the Comprehensive Income and Expenditure Statement includes interest, straight-line depreciation, any asset impairments and changes in variable lease payments not included in the measurement of the liability during the period in which the triggering event occurred. Lease payments are debited against the liability. Rentals for leases of low-value items or shorter than twelve months are expensed.

Depreciation and impairments are not charged against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserves Statement.

The council as lessor

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Finance Leases

The Council has no Finance Leases, where the Council is a lessor.

Operating Leases

Where the authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease or where this is initiated by a service to the individual service, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

Allocation of 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.

Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

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

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

Assets are carried in the balance sheet using the following measurement bases:

- **Infrastructure assets** – in this and predecessor Codes these assets have been consistently required to be measured as depreciated historical cost, but this practice has been subject to modification. **Note 15** provides more information on the accounting for and disclosure around infrastructure assets;
- **Community assets** – depreciated historical cost;
- **Assets under construction** – historical cost;
- **Dwellings** - current value, determined using the basis of existing use value for social housing (EUJ-SH). Gross valuations are reduced by applying the discount factor which is designed to reflect that houses are only available for social use. Any new build housing and newly purchased houses are valued at historic cost;
- **Vehicles, Plant and Equipment** – depreciated historical cost;
- **Surplus Assets** – fair value based on market value in highest and best use;
- **Other land and buildings** – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUJ).

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.

From 1 April 2025, The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requirements changed in respect of revaluations to property, plant and equipment. Where authorities do not have a rolling programme of revaluations in place and/or the assets are not

non-property assets subject to indexation, authorities revalue their assets every five years, with annual indexation applied to assets during the four intervening years. Where authorities cannot obtain indices without undue cost or effort, authorities revalue those assets using a quinquennial revaluation with a desktop revaluation in year three.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the surplus or deficit on the provision of services where they arise from the reversal of a loss previously charged to the service.

Where decreases in value are identified, they are accounted for by:

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

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the following bases:

- **Dwellings and other buildings** – straight-line allocation over the useful life of the property as estimated by the 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.

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. For the purposes of component accounting Council considers significant components being those with a cost that is at least 15% of the overall cost of the asset. Individual assets shall be disregarded for component accounting where their carrying value is below £1.5 million

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

Disposals of non-current assets held for sale

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

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

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

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

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

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

Public Private Partnership (PPP) and Similar Contracts

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

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

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

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

- **Fair value of the services received during the year** – debited to the relevant service in the Comprehensive Income and Expenditure Statement (CIES);
- **Finance Cost** – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the CIES, the interest charges are as follows:
 - Dalkeith Schools - 10.22%;
 - Midlothian Primary Schools - 7.29%;
 - Newbattle Community Campus - 5.06%;
 - Residual Waste Treatment Plant, Millerhill – 18.84%;
- **Payment towards liability** – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- **Service charge and lifecycle replacement costs** – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place on or before the Balance Sheet date that gives the Council a present obligation that probably requires settlement by a transfer of economic benefits or service potential, and where a reliable estimate can be made of the amount of the obligation.

If it is not clear whether an event has taken place on or before the Balance Sheet date, it is deemed to give rise to a present obligation if, taking account of all the available evidence, it is more likely than not that a present obligation exists at the Balance Sheet date. The present obligation can be legal or constructive.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement when the Council has an obligation, and are measured at the

best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent Liabilities

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

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.

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 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.

Revenue Expenditure Funded from Capital Under Statute (Refcus)

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset is charged as expenditure to the relevant service line in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance

to the Capital Adjustment Account then reverses out the amounts charged so there is no impact on the level of council tax.

VAT

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

Fair Value Measurement of Non-financial Assets

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

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

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

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

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

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

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

2. Accounting Standards Issued, Not Yet Adopted

The code requires disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2026/27 code.

- Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (Amendments to Heritage assets);
- Amendments to the Classification and Measurement of Financial Instruments (Amendments to IFRS 9 and IFRS 7);
- Annual improvements to IFRS accounting standards – Volume 11;

- Contracts Referencing Nature-dependent Electricity (Amendments to IFRS 9 and IFRS 7).

The changes will be effective from 1 April 2026 and none are expected to have a material impact on the financial statements.

3. Critical Judgements in Applying Accounting Policies

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

- **Uncertainty over future funding** - There is a high degree of uncertainty around future levels of funding for local government, which may significantly impact the Council's ability to maintain its property, plant and equipment. The council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired as a result of a reduction in funding and subsequent required changes to investment and capital strategies
- **Public-Private Partnerships (PPP) and similar type contracts** - The Council has entered into PPP and similar type contracts for the provision of educational buildings and waste facilities as detailed in **Note 28**. For each of these contracts the Council has considered the tests under IFRIC 12 and concluded the following:

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

The Council is deemed to control 20% of the services provided under the Design, Build, Finance and Maintain (DBFM) for the Residual Waste Treatment Plant (80% controlled by Edinburgh Council) and is therefore recognised as Property, Plant and Equipment on the Council's Balance Sheet. Having considered the ownership transfers as outlined in Note 34 the Council is not deemed to control the Millerhill Food Waste Treatment Plant and has therefore concluded this is a service concession and the variable nature of the contract means the contract falls out of scope of IFRS16, resulting in the asset not being recognised on the balance sheet.

The Council has therefore recognised assets in relation to PPP and similar type contracts on the council's balance sheet at a net book value of £195.534 million, with a corresponding liability in relation to future payments to be made under the scheme of £81.542 million.

- **Associates** - The Valuation Joint Board is included within the group accounts under the wider definition of an "associate" although the council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements in place whereby the Council provides £0.645 million annually, and as such is considered to hold significant influence. Details of the impact on the Group accounts is provided in **Note 33**.
- **Climate Change** – Whilst the council is committed to make significant progress by 2030 towards its net-zero target, there is uncertainty over future investment required to achieve this target and the potential impact on valuation and life of property, plant and

equipment or assets potentially becoming obsolete. The council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the council might be impaired due to climate-related matters.

4. Future Assumptions and Estimation Uncertainties

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. The assumptions and other sources of estimation uncertainty disclosed below relate to the estimates that require the Council's most difficult, subjective or complex judgements. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increases, those judgements become more subjective and complex. As a result, balances cannot be determined with certainty and actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet as at 31 March 2026 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Property, Plant and Equipment

Uncertainties

Assets are depreciated over useful lives that are dependent on several assumptions including the level of repairs and maintenance that will be incurred in relation to individual assets. Any reduction in current spend on repairs and maintenance may reduce the useful lives assigned to assets.

Assets are valued on a five-year rolling basis, supported by indexation adjustments in years where assets are not valued. Where the Council is unable to obtain a suitable index, a desktop revaluation is carried out in year three of the five year cycle.

Several factors influence the valuation of the Council's property, plant and equipment i.e. replacement cost, market value fluctuations of comparable assets, current condition and changes to regulatory standards, this means that given the material nature of the Council's assets any changes in these estimates would likely result in material changes in the valuation of assets on the balance sheet.

Effect if actual results differ from assumptions

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 £5.999 million for every year that useful lives had to be reduced.

The net book value of all council property, plant and equipment subject to revaluation through the 5 year revaluation cycle is £1.071 billion. Assets revalued in 2025/26 totalled £505.430 million before revaluation.

The impact of a 5% change in valuation of these would be £25.046 million, either resulting in an increase or decrease in the Council's revaluation reserve or an additional impairment charge. For those assets where indexation was applied, the average increase in the value of assets was 2.73% and totalled £5.519 million.

Pension Obligation

Uncertainties

Estimation of the net obligation to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied.

The actuarial inputs into the pension obligation valuation are subject to annual review, and have a significant impact on the potential valuation. Historically it is common for small changes in the discount rate, salary assumption rate and pension rate to have material impacts on the year-end valuations on a year to year basis.

More information on the key assumptions used in the actuarial valuation of the estimates is available in **note 30** to the accounts, including information on the key assumptions, risks, sensitivities and restrictions on the amount on the balance sheet arising from IFRIC 14. An update is also included in this note on the latest development around several equalisation adjustments to pension obligation which have occurred in LGPS and may continue to materially impact the valuation of the Council's obligation going forward.

Effect if actual results differ from assumptions

The effects of the net pension obligation of changes in individual assumptions can be measured. For instance, it is estimated that a one year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%.

However the assumptions interact in complex ways. During 2025/26 the Council's actuary advised that the net pension obligation had increased by £33.349 million because of estimates being corrected as a result of updating of the financial assumptions.

Arrears

Uncertainties

As at 31 March the Council has Council Tax and Non-Domestic Rates debt due of £62.665 million. Management reviewed this balance at 31 March and determined that an allowance for doubtful debts, detailed in **Note 18**, of £49.578 million was appropriate based upon historical assessment of recoverability/review of individual balances and correspondence with third parties at year-end. However, it is recognised that in the current economic climate there is increased uncertainty around the recoverability of debtor balances. Management has continued to review all material outstanding balances at the year-end subsequent to 31 March, and has not determined any further allowance is required based on recovery to date.

Effect if actual results differ from assumptions

If collection rates were to deteriorate then this will result in an increase in the provision required i.e., 1% would require an increase of £0.496 million, 3% an increase of £1.487 million and 5% an increase of £2.479 million.

5. Events after the Reporting Period

The Unaudited Annual Accounts were authorised for issue by the Chief Financial Officer on 22 June 2026. Events taking place after this date are not reflected in the financial statements or

notes. Where events taking place before this date provided information about conditions existing at 31 March 2026, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

6. Note to the Expenditure and Funding Analysis

Adjustments between funding and accounting basis				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net Change for Pension Adjustments £000	Other Adjustments £000	Total Adjustments £000
Current Year 2025/26				
Management and Members	1	(736)	25	(710)
Children's Services, Partnerships and Communities	296	(72)	81	305
Education	20,833	(1,093)	105	19,845
Adult Health and Social Care (Non-Delegated)	0	0	0	0
Midlothian Integrated Joint Board	513	(165)	205	553
Place	15,693	(281)	613	16,025
Corporate Solutions	1,574	(101)	141	1,614
Housing Revenue Account	29,384	(9)	0	29,375
Joint Boards	0	0	0	0
Central Costs	0	0	0	0
Non-distributable Costs	0	0	0	0
Net Cost of Services	68,294	(2,457)	1,170	67,007
Other (income)/expenditure from the Expenditure and Funding Analysis	(42,586)	(15,959)	(12)	(58,557)
Adjustments between funding and accounting basis	25,708	(18,416)	1,158	8,450
Application of Service Concessions	0	0	3,005	3,005
Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit on provision of services	25,708	(18,416)	4,163	11,455
Comparative Year 2024/25				
Management and Members	0	17	3	20
Children's Services, Partnerships and Communities	299	129	(2)	426
Education	23,853	2,159	1,178	27,190
Adult Health and Social Care (Non-Delegated)	0	0	10	10
Midlothian Integrated Joint Board	676	315	(60)	931
Place	7,541	550	5	8,096
Corporate Solutions	1,865	(383)	15	1,497
Housing Revenue Account	65,452	19	0	65,471
Joint Boards	0	0	0	0
Central Costs	69	0	0	69
Non-distributable Costs	0	0	0	0
Net Cost of Services	99,755	2,806	1,149	103,710
Other (income)/expenditure from the Expenditure and Funding Analysis	(42,665)	(8,880)	(13)	(51,558)
Adjustments between funding and accounting basis	57,090	(6,074)	1,136	52,152
Application of Service Concessions	0	0	2,796	2,796
Difference between the General Fund surplus or deficit and Comprehensive Income and Expenditure surplus or deficit on provision of services	57,090	(6,074)	3,932	54,948

Adjustments for Capital Purposes

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

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

- **Financing and investment income and expenditure** – the statutory changes for capital financing i.e. loans fund repayments and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – Capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for Pensions Adjustments

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

- **For services** – this represents the removal of the employer pension contributions made by the Council as allowed by statute and the replacement with the 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 Comprehensive Income and Expenditure Statement.

Other Adjustments

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

- **For services** – the amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the remuneration chargeable in the year in accordance with statutory requirements.
- **For financing and investment income and expenditure** – this is the 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 recognised by the Council in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

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

investment (or the deficit of resources that the Council is required to recover) at the end of the financial year.

Housing Revenue Account (HRA) Balance

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

Capital Fund and Repairs and Renewals Fund

The Capital Fund and the Repairs and Renewals Fund are reserves to hold funds for major capital developments and specific types of repairs and maintenance work, respectively. Whilst these funds are classed as useable reserves, they are not subject to adjustments between the funding and accounting basis.

Current Year 2025/26	General Fund Reserve £000	Housing Revenue Account £000	Total Usable Reserves £000	Total Unusable Reserves £000
Adjustments to Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
• Pensions Costs (transferred to/from pensions reserve)	18,320	96	18,416	(18,416)
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	12	0	12	(12)
• Holiday Pay (transferred to the Accumulated Absence Account)	(1,170)	0	(1,170)	1,170
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(50,056)	(29,082)	(79,138)	79,138
Total adjustments to Revenue Resources	(32,894)	(28,986)	(61,880)	61,880
Adjustments between Revenue and Capital Resources				
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	7,842	7,403	15,245	(15,245)
Total adjustments between revenue and capital resources	7,842	7,403	15,245	(15,245)
Adjustments to Capital Resources				
Application of capital grants to finance capital expenditure	38,185	0	38,185	(38,185)
Total Adjustments to Capital Resources	38,185	0	38,185	(38,185)
Total adjustments between accounting and funding basis	13,133	(21,583)	(8,450)	8,450
Application of Service Concessions	(3,005)	0	(3,005)	3,005
Total Adjustments	10,128	(21,583)	(11,455)	11,455

Comparative Year 2024/25	General Fund Reserve £000	Housing Revenue Account £000	Total Usable Reserves £000	Total Unusable Reserves £000
Adjustments to Revenue Resources				
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
• Pensions Costs (transferred to/from pensions reserve)	6,043	31	6,074	(6,074)
• Financial Instruments (transferred to the Financial Instruments Adjustment Account)	12	0	12	(12)
• Holiday Pay (transferred to the Accumulated Absence Account)	(1,149)	0	(1,149)	1,149
• Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(33,893)	(65,907)	(99,800)	99,800
Total adjustments to Revenue Resources	(28,987)	(65,876)	(94,863)	94,863
Adjustments between Revenue and Capital Resources				
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	7,433	7,047	14,480	(14,480)
Total adjustments between revenue and capital resources	7,433	7,047	14,480	(14,480)
Adjustments to Capital Resources				
Application of capital grants to finance capital expenditure	28,231	0	28,231	(28,231)
Total Adjustments to Capital Resources	28,231	0	28,231	(28,231)
Total adjustments between accounting and funding basis	6,677	(58,829)	(52,152)	52,152
Application of Service Concessions	(2,796)	0	(2,796)	2,796
Total Adjustments	3,881	(58,829)	(54,948)	54,948

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 2025/26.

	Balance at 1 April 2024 £000	Transfers out 2024/25 £000	Transfers in 2024/25 £000	Balance at 31 March 2025 £000	Transfers out 2025/26 £000	Transfers in 2025/26 £000	Balance at 31 March 2026 £000
Scheme of Devolved Budget Management carry forwards	(15,335)	15,335	(11,035)	(11,035)	11,035	(7,332)	(7,332)
Loans Fund Review	0	3,373	(5,525)	(2,152)	0	0	(2,152)
Transformation Blueprint	(2,636)	1,132	0	(1,504)	885	(1,000)	(1,619)
Set aside to balance budget	(2,680)	2,680	(163)	(163)	163	0	0
Service Concessions	(16,370)	5,603	0	(10,767)	4,093	0	(6,674)
Total Earmarked Reserves	(37,021)	28,123	(16,723)	(25,621)	16,176	(8,332)	(17,777)
Non-earmarked reserves	(9,317)	2,909	0	(6,408)	0	(233)	(6,641)
Total General Fund Balance	(46,338)	31,032	(16,723)	(32,029)	16,176	(8,565)	(24,418)

9. Other Operating Income and Expenditure

2024/25 £000	Other Operating Income and Expenditure	2025/26 £000
45	(Gains)/Losses on disposal of non-current assets	(217)
45	Total	(217)

10. Financing and Investment Income and Expenditure

2024/25 £000	Financing Investment Income and Expenditure	2025/26 £000
20,547	Interest payable and similar charges	21,114
(8,880)	Net interest on the net defined benefit liability/(asset)	(15,959)
(5,124)	Interest receivable and similar income	(3,881)
6,543	Total	1,274

11. Taxation and Non-specific Grant Income and Expenditure

2024/25 £000	Taxation and Non-specific Grant Income and Expenditure	2025/26 £000
(58,294)	Council tax income	(65,922)
(34,867)	Non-domestic rates income	(36,354)
(195,020)	Non-ringfenced government grants	(211,080)
(28,231)	Capital grants and contributions (<i>note 12</i>)	(38,185)
(316,412)	Total	(351,541)

12. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2025/26.

2024/25 £000	Grant Income	2025/26 £000
	Credited to Taxation and Non-specific Grant Income and Expenditure	
(7,708)	General Capital Grant	(9,401)
(8,470)	Affordable Housing Supply Programme	(11,818)
(2,592)	Developer Contributions	(5,425)
(2,517)	General Capital Grant – Early Years Childcare	(934)
(5,357)	Other Scottish Government Grants	(5,537)
(818)	Net-Zero Funding	(711)
(769)	Other Capital Grants and Contributions	(4,359)
(28,231)	Total	(38,185)
	Credited to Services	
(17,065)	Housing Benefit Subsidy	(14,390)
(2,677)	Unitary Charge Funding	(4,179)
(2,436)	Pupil Equity Funding	(2,436)
(463)	Unaccompanied Asylum Seeking Children	(709)
(1,390)	Community Justice Grant	(2,062)
(498)	Energy Efficient Scotland	(1,252)
(461)	McMillan Funding for Improving Cancer Journey	(474)
(2,717)	UK Shared Prosperity Fund	(1,458)
(715)	Child Protection Grant	(695)
0	Whole Family Wellbeing Fund	(690)
0	No One Left Behind	(586)
(937)	Ukrainian Programme	(179)
(618)	Scottish Government Attainment Programme	(163)
(527)	Penicuik Townscape Heritage Project	0
(2,723)	Other Grants Received	(2,255)
(33,227)	Total	(31,528)

13. Expenditure and Income Analysed by Nature

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

2024/25 £000	Expenditure and income analysed by nature	2025/26 £000
	Expenditure	
207,799	Employee expenses	206,916
282,563	Other service expenses	292,462
99,687	Depreciation, amortisation and impairment	79,269
20,547	Interest payments	21,114
45	(Gain)/Loss on disposal on non-current assets	(217)
30	Share of operating results of associates and joint ventures	(423)
610,671	Total Expenditure	599,121
	Income	
(99,881)	Fees, charges and service income	(103,819)
(5,124)	Interest and investment income	(3,881)
(93,161)	Income from council tax and non-domestic rates	(102,276)
(336,063)	Government grants and contributions	(369,609)
(534,229)	Total Income	(579,585)
76,442	(Surplus) or deficit on the provision of services	19,536

14. Property, Plant and Equipment

Movements on Balance

Movements in 2025/26	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total property, plant & Equipment	Service Concession Assets*
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2025	472,310	629,637	59,750	8,646	73,866	1,019	1,245,228	199,707
Additions	16,023	5,550	9,233	319	58,439	0	89,564	117
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(1,602)	(23,709)	0	4	0	14	(25,293)	(3,181)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(17,822)	(2,025)	(186)	(12)	0	(13)	(20,058)	0
De-recognition – Disposals	(294)	(397)	(2,123)	0	0	0	(2,814)	0
Reclassification of Assets	22,088	391	(9)	(80)	(23,292)	(45)	(947)	0
Other Movements	0	0	0	0	(256)	0	(256)	0
Balance at 31 March 2026	490,703	609,447	66,665	8,877	108,757	975	1,285,424	196,643
Accumulated Depreciation and Impairment								
Balance at 1 April 2025	(564)	(27,891)	(38,149)	(6)	0	(4)	(66,614)	(2,354)
Depreciation Charge	(10,749)	(38,938)	(5,153)	(21)	0	(12)	(54,873)	(3,471)
Additions	0	(15)	(102)	0	0	0	(117)	0
Depreciation written out to the Revaluation Reserve	440	43,915	0	0	0	5	44,360	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	101	0	0	0	0	101	4,716
De-recognition – Disposals	230	0	1,848	0	0	0	2,078	0
Reclassification of Assets	0	0	0	0	0	0	0	0
Balance at 31 March 2026	(10,643)	(22,828)	(41,556)	(27)	0	(11)	(75,065)	(1,109)
Net Book Value								
At 31 March 2026	480,060	586,619	25,109	8,850	108,757	964	1,210,359	195,534
At 31 March 2025	471,746	601,746	21,601	8,640	73,866	1,015	1,178,614	197,353

*Service concession assets included in 'land and buildings' total.

Movements in 2024/25	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Community Assets	Assets Under Construction	Surplus Assets	Total property, plant & Equipment	Service Concession Assets*
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 April 2024	518,018	590,873	54,508	8,868	73,297	952	1,246,516	195,300
Additions	12,830	1,939	10,734	374	66,331	0	92,208	0
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(9,406)	3,630	0	(1,007)	0	0	(6,783)	4,592
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(76,068)	(2,441)	0	435	0	0	(78,074)	(522)
De-recognition – Disposals	(269)	(5)	(1,528)	(24)	0	0	(1,826)	0
Reclassification of Assets	27,088	35,232	(4,216)	0	(65,762)	67	(7,591)	0
Other Movements**	117	409	252	0	0	0	778	337
Balance at 31 March 2025	472,310	629,637	59,750	8,646	73,866	1,019	1,245,228	199,707
Accumulated Depreciation and Impairment								
Balance at 1 April 2024	(22,961)	(16,355)	(36,165)	(54)	0	0	(75,535)	(3,197)
Depreciation Charge	(12,199)	(30,379)	(3,423)	(23)	0	(4)	(46,028)	(3,154)
Depreciation written out to the Revaluation Reserve	11,318	15,493	0	70	0	0	26,881	666
Depreciation written out to the Surplus/Deficit on the Provision of Services	22,986	3,373	0	1	0	0	26,360	3,331
De-recognition – Disposals	269	0	1,439	0	0	0	1,708	0
Reclassification of Assets	23	(23)	0	0	0	0	0	0
Balance at 31 March 2025	(564)	(27,891)	(38,149)	(6)	0	(4)	(66,614)	(2,354)
Net Book Value								
At 31 March 2025	471,746	601,746	21,601	8,640	73,866	1,015	1,178,614	197,353
At 31 March 2024	495,057	574,517	18,343	8,814	73,297	952	1,170,980	192,103

*Service concession assets included in 'land and buildings' total. **Adoption of right-of-use assets, under IFRS 16, are included in the other movements line of the note.

Depreciation

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

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

Capital Commitments

At 31 March 2026, the Council has entered into a number of contracts for the construction or enhancement of property, plant and equipment in 2025/26. The major commitments are :

	Original Contractual Commitment £000	Outstanding at 31 March 26 £000
Capital Commitments		
Housing Revenue Account (HRA)		
Phase 3-5 New Social Housing – Site 32/34 Newbyres Crescent	17,532	1,317
Phase 3-5 New Social Housing – Site 130 Morris Road (Newbattle HS)	25,438	546
Phase 3-5 New Social Housing – Danderhall AA2/AA3 (Bellway)	7,454	112
Phase 3-5 New Social Housing – Edmonstone Road	3,880	942
Phase 3-5 New Social Housing – Newton Church Road	6,932	2,490
Energy Efficiency in Social Housing	12,249	7,200
General Fund		
Midlothian House Refurbishment	13,250	10,589
Penicuik High School Refurbishment and Expansion	45,485	42,277
New Mayfield and St Lukes Primary School	43,427	32,563
Bilston Primary School	3,395	2,843
Other General Fund capital commitments	1,309	432
Joint-funded Project		
Phase 3-5 New Social Housing – Site 114	23,940	2,045
Total Contractual Commitment	204,291	103,356

Revaluations

The council ensures that all property, plant and equipment to be measured at current value is subject to one of the following processes:

- A quinquennial revaluation, supplemented by annual indexation in intervening years.
- A rolling programme of revaluations over a five-year cycle, with annual indexation applied to assets during the four intervening years.
- For non-property assets only, appropriate indices.

From 1 April 2025, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requirements changed in respect of revaluations of property, plant and equipment. Where authorities do not have a rolling programme of revaluations in place and/or the assets are not non-property assets subject to indexation, authorities revalue their assets every five years, with annual indexation applied to assets during the four intervening years. Where authorities cannot obtain indices without undue cost or effort, authorities revalue those assets using a quinquennial revaluation with a desktop revaluation in year three.

All valuations are carried out by independent expert valuers engaged by the Council 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 2025/26 valuations were undertaken for Primary Schools, open spaces and heritage assets. The majority of asset valuations were based on either a depreciated replacement cost (DRC) basis or market value and resulted in a net downwards revaluation of assets of £0.897 million.

In addition to formal valuations of property, plant and equipment on a rolling basis over a five year period, the Council assesses all assets to ensure there are no material changes that should drive an earlier valuation, to ensure that, in line with the CIPFA code, assets are revalued with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using the current value at the end of the reporting period. The Council has continued to assess the valuation of its asset base subsequent to the financial year end as summarised in note 4 to these financial statements.

The table below summarises the indexation applied in 2025/26.

Index	Average change %	Valuation change £000
BCIS All TPI	2.76%	5,413
Savills Scottish farmland survey	2.54%	106
Total Indexation Applied in 2025/26	2.73%	5,519

15. Infrastructure Assets

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

In accordance with the temporary relief offered by the update to the code on infrastructure assets (Local Government Circular 06/2025 Statutory Override Accounting for Infrastructure Assets for Scottish Local Authorities) this note does not include disclosure of gross cost and accumulated depreciation for infrastructure assets because historical reporting practices and resultant information deficit mean that this would not faithfully represent the asset position to users of the financial statements.

The Council has chosen not to disclose this information as the previously reported practices and resultant information deficits mean that gross cost and accumulated depreciation are not measured accurately and would not provide the basis for the users of the financial statements to take economic or other decisions relating to infrastructure assets.

The Council has determined in accordance with Local Government Finance Circular 09/2022 (as amended by 06/2025) Statutory Override Accounting for Infrastructure Assets for Scottish Local Authorities that the carrying amount to be derecognised in respect of a replaced part of an infrastructure asset is to be taken to be and accounted for as a nil amount. In accordance with the circular, the Council is not required to make subsequent adjustments to the carrying amount of the asset with respect to that part.

2024/25 £000	Infrastructure Assets	2025/26 £000
38,423	Balance at 1 April	52,394
(2,222)	Depreciation	(3,486)
9,279	Additions	10,577
6,914	Reclassification of Assets and other movements	0
52,394	Balance at 31 March	59,485

16. Financial Instruments

Categories of Financial Instruments

The following categories of financial instruments are carried in the balance sheet.

Financial Assets

31 Mar 2024					31 Mar 2025		
Long-term	Current	Total	Financial Assets	Category	Long-term	Current	Total
£000	£000	£000			£000	£000	£000
0	70	70	Short-term Investments (<i>below</i>)	Amortised Cost	0	0	0
3,756	19,158	22,914	Debtors (<i>note 18</i>)	Amortised Cost	4,531	27,373	31,904
16,604	0	16,604	Long-term investments (<i>below</i>)	Fair value through other comprehensive income	16,961	0	16,961
20,360	19,228	39,588	Total Financial Assets		21,492	27,373	48,865
0	9,720	9,720	Debtors not defined as financial instruments (<i>note 18</i>)		0	19,637	19,637
20,360	28,948	49,308	Total		21,492	47,010	68,502

The short and long-term investments on the balance sheet comprises:

31 Mar 2025					31 Mar 2026		
Long-term	Current	Total	Investments	Category	Long-term	Current	Total
£000	£000	£000			£000	£000	£000
0	70	70	Commercial banks/building societies		0	0	0
0	70	70	Total		0	0	0

Financial Liabilities

31 Mar 2025					31 Mar 2026		
Long-term	Current	Total	Financial Liabilities	Category	Long-term	Current	Total
£000	£000	£000			£000	£000	£000
377,696	5,015	382,711	Borrowings (<i>below</i>)	Amortised Cost	445,309	22,045	467,354
70,671	3,602	74,273	PPP Liability (<i>note 28</i>)	Amortised Cost	66,771	3,878	70,649
10,893	573	11,466	PPP Donated Asset Liability (<i>note 28</i>)	Amortised Cost	10,320	573	10,893
76	189	265	Leases (<i>note 27</i>)	Amortised Cost	136	227	363
0	24,398	24,398	Creditors (<i>note 20</i>)	Amortised Cost	0	27,149	27,149
459,336	33,777	493,113	Total		522,536	53,872	576,408
0	30,955	30,955	Creditors not defined as financial instruments (<i>note 20</i>)		0	22,682	22,682
459,336	64,732	524,068	Total		522,536	76,554	599,090

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

31 Mar 2025			Borrowing	31 Mar 2026		
Long-term £000	Current £000	Total £000		Long-term £000	Current £000	Total £000
342,316	3,911	346,227	Public Works Loan Board (PWLB) Loans	410,631	20,941	431,572
20,514	289	20,803	Lender Option/Borrower Option (LOBO) Loans	20,501	287	20,788
14,866	815	15,681	Loans from commercial banks and other local authorities	14,177	817	14,994
377,696	5,015	382,711	Total	445,309	22,045	467,354

Loans Fund Deferral Payments

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

Deferred Principal Repayments – Loans Fund	£000
Within 1 year	223
Within 2 to 5 years	711
Within 6 to 10 years	498
Within 11 to 15 years	325
Within 16 to 20 years	139
Total	1,896

Investments Designated at Fair Value through Other Comprehensive Income

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

31 Mar 2025 £000	Long-term Assets	Input Level in Fair Value Hierarchy (see note 1 viii)	31 Mar 2026 £000
6,082	Equity Shareholding in Lothian Buses	Level 2	6,440
322	Subordinated Debt Subscription in Newbattle DBFMCo	Level 3	321
10,200	Midlothian Energy Shareholding	Level 3	10,200
16,604	Total		16,961

Lothian Buses Plc

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

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

ended 31 December 2025. The IAS 19 Pension Asset/Liability has now been removed from calculations due to its volatility, as demonstrated in the on-year movement in the transfer to/from reserves figure in the table below. **Note 31** provides more detail on the potential guarantee liability associated with this investment.

Year to 31 Dec 24 £000	Lothian Buses	Year to 31 Dec 25 £000
	Profit/Loss:	
5,774	Profit/(Loss) before taxation	4,021
(2,470)	Taxation	(8,230)
3,304	Profit/(Loss) after Tax	(4,209)
	Other relevant Financial Information:	
197,749	Revenue	210,704
0	Ordinary Dividend	0
(9,819)	Transfer to/(from) reserves	377
111,195	Equity attributable to equity holders (excluding IAS 19 Pension Asset/Liability)	117,741

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 (current nominal value of loan stock £0.321 million) is calculated based on the subscription value as there is no equivalent market data to estimate resale value.

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

Midlothian Energy Ltd

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

The carrying value of the Council investment in Midlothian Energy Limited represents the funds invested in 2022 and 2024. The published results for Midlothian Energy Limited for the year ended 31 December 2025 are summarised below.

Year to 31 Dec 24 £000	Midlothian Energy Ltd	Year to 31 Dec 25 £000
	Profit/Loss:	
(311)	Profit/(Loss) before taxation	(1,619)
802	Taxation	(1,351)
491	Profit/(Loss) after Tax	(2,970)
	Other relevant Financial Information:	
20,400	Shares issued during the period	20,400
(2,267)	Accumulated Losses	(5,238)
18,133	Total Equity	15,162

Income, Expenses, Gains and Losses

Income, Expenses, Gains and Losses	2024/25		2025/26	
	Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000	Surplus or deficit on the provision of services £000	Other comprehensive income and expenditure £000
Net gains/losses on:				
• Investments in equity instruments designated at fair value through other comprehensive income	0	488	0	358
Total net gains/(losses)	0	488	0	358
Interest revenue:				
• Financial assets measured at amortised cost	2,438	0	1,971	0
Total Interest Revenue	2,438	0	1,971	0
Interest Expense	11,460	0	13,093	0
Fee Expense:				
• Financial assets or financial liabilities that are not at fair value through profit and loss	153	0	184	0
Total Fee Expense	153	0	184	0

Fair Value of Financial Assets and Liabilities

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

31 Mar 2025		Financial Liabilities	31 Mar 2026	
Carrying Amount £000	Fair Value £000		Carrying Amount £000	Fair Value £000
346,227	231,469	PWLB Loans (Level 2)	431,572	311,163
20,803	16,818	Lender Option/Borrower Option (LOBO) Loans (Level 2)	20,788	16,014
15,681	12,226	Loans from commercial lenders and other local authorities (Level 2)	14,994	11,597
24,398	24,398	Creditors	27,149	27,149
265	265	Leases	363	363
74,273	74,273	PPP Finance Lease Liability	70,649	70,649
11,466	11,466	PPP Donated Asset Account Liability	10,893	10,893
493,113	370,915	Total	576,408	447,828

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

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

31 Mar 2025			31 Mar 2026	
Carrying Amount £000	Fair Value £000	Financial Assets	Carrying Amount £000	Fair Value £000
70	70	Short/long-term Investments	0	0
22,914	22,914	Debtors	31,904	31,904
22,984	22,984	Total	31,904	31,904

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

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

Financial Assets	Financial Liabilities
- The valuation of fixed term deposits (maturity deposits) is made by comparison of the fixed term deposit with a comparable deposit with the same/similar lender for the remaining period of the deposit.	- No early repayment is recognised.
- The fair value of receivables is taken to be the invoiced or billed amount.	- Estimated ranges of interest rates at 31 March 2026 for loans payable based on new lending rates for equivalent loans at that date.
	- The fair value of payables is taken to be the invoiced or billed amount.

17. Nature and Extent of Risks arising from Financial Instruments

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

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

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

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

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

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

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

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

The expected credit loss for the Council's financial assets held at amortised cost has been calculated to be £0.000 million (2024/25 £0.001 million). The Council deems this immaterial and therefore has not included any impact of this with the Comprehensive Income and Expenditure Statement (CIES).

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

- **Lothian Buses Shareholding** – There was no dividend received during 2024/25, 2023/24 was the first dividend received since 2019; it was previously estimated that dividend would not be received until 2026;
- **Subordinated Debt Investment in Newbattle DBFM Co SPV** – Whilst there is no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance with the DBFM Co or any indications that future scheduled lifecycle maintenance will not be able to take place or senior and/or subordinated debt will not be able to be repaid. The Council will continue to review the performance of the SPC on an annual basis;
- **Midlothian Energy Ltd** – Whilst there is no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance. The Council will continue to review the performance of the company on an annual basis.

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

2024/25 £000	Financial Assets	2024/25 £000
26,948	Less than three months	30,535
26,948	Total	30,535

Liquidity Risk

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

If unexpected movements happen, the Council has ready access to borrowings from the money markets and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead the risk is that the Council will be bound to replenish a significant proportion of its borrowings at a time of unfavourable

interest rates. The Council sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is that loan maturities are spread across financial years to mitigate refinancing risk, through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. The maturity analysis of financial liabilities is as follows:

2024/25 £000	Financial Liabilities	2025/26 £000
5,015	Less than one year	22,045
11,771	Between one and two years	39,704
45,387	Between two and five years	99,130
60,177	Between five and ten years	59,615
22,447	Between ten and twenty years	21,853
61,031	Between twenty and thirty years	48,124
81,883	Between thirty and forty years	101,883
90,000	Between forty and fifty years	70,000
5,000	More than fifty years	5,000
382,711	Total	467,354

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

Market Risk

Interest Rate Risk

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

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

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

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

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

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

According to this assessment strategy, at 31 March 2026, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

2024/25 £000		2025/26 £000
	Impact on taxpayer and rent payer:	
0	Increase in interest payable on variable rate borrowings	0
485	Increase in interest receivable on variable rate instruments	474
485	Impact on Surplus/Deficit on the Provision of Services	474
	Other presentational changes:	
(29,001)	(Decrease)/Increase in fair value of fixed rate borrowing liabilities (no impact on the Surplus/Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	3,884

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 16** of the Financial Statements.

Foreign Exchange Risk

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

18. Debtors

2024/25 £000	Current Debtors	2025/26 £000
6,922	Central Government Bodies	15,804
3,836	Other Public Sector Bodies	3,967
	Other Entities and Individuals (net of impairment)*	
3,426	o Council tax and non-domestic rates	13,087
3,659	o Rents	4,265
11,035	o Other debtors	9,887
28,878	Total	47,010

* For impairment, significant individual balances are considered before a collective impairment of all remaining debtors based on their age profile. Impairment is applied to all outstanding debt at the balance sheet date for Council Tax and Non-Domestic Rates of £49.578 million (2024/25 £46.826 million) and Rents of £4.330 million (2024/25 £4.100 million). For sundry debtors, all debts that are over six months past their payment date impairment will be applied of £2.436 million (2024/25 £2.608 million), of which £1.737 million relates to housing benefit overpayments (2024/25 £1.765 million).

19. Cash and Cash Equivalents

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

2024/25 £000	Cash and Cash Equivalents	2025/26 £000
478	Cash held by the Council	350
26,414	Short-term Deposits	30,171
(14)	Bank current accounts	14
26,878	Total	30,535

20. Creditors

2024/25 £000	Creditors	2025/26 £000
71	Central government bodies	84
2,429	Other public sector bodies	2,265
57,217	Other entities and individuals	52,160
59,717	Total	54,509

21. 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 giver. The balances at year-end are as follows:

2024/25 £000	Grants Received in Advance	2025/26 £000
40,821	Balance at 1 April	46,055
	New capital grants received , conditions of use not yet met:	
30	Scottish Government Place Based Investment Fund	231
0	Early Years Capital Grant returned from External Provider	460
11,248	Section 75 contributions from private developers	14,561
0	Other grants received in advance	4
11,278	Balance at 31 March	15,256
(6,044)	Amounts released to CIES, conditions of use met	(9,618)
46,055	Balance at 31 March	51,693

22. Usable Reserves

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

23. Unusable Reserves

2024/25 £000	Unusable Reserves	2025/26 £000
(317,130)	Revaluation Reserve	(306,851)
(5,732)	Financial Instruments Revaluation Reserve	(6,090)
(341,946)	Capital Adjustment Account	(341,281)
1,143	Financial Instruments Adjustment Account	1,024
6,433	Pensions Reserve	6,124
10,144	Accumulated Absences Account	11,314
(647,088)	Total	(635,760)

Revaluation Reserve

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

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

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

2024/25 £000	Revaluation Reserve	2025/26 £000
(319,859)	Balance at 1 April	(317,130)
(20,727)	(Surplus) or deficit on revaluation of non-current assets not posted to the surplus or deficit on the provision of services	(20,971)
	Amounts written off to the Capital Adjustment Account	
23,276	Difference between fair value depreciation and historical cost depreciation	29,607
180	Accumulated (gains)/losses on assets sold or scrapped	1,643
23,456	Amount written off to the Capital Adjustment Account	31,250
(317,130)	Balance at 31 March	(306,851)

Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that at measured at fair value through other comprehensive income. The balance is reduced when investments with accumulated gains are:

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

2024/25 £000	Financial Instruments Revaluation Reserve	2025/26 £000
(5,243)	Balance at 1 April	(5,732)
(489)	(Upward)/Downward Revaluation of Investments	(358)
(5,732)	Balance at 31 March	(6,090)

Capital Adjustment Account

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

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

Note 7 provides further details of transactions posted to the account, apart from those involving the revaluation reserve.

2024/25 £000	Capital Adjustment Account	£000	2025/26 £000
(386,625)	Balance at 1 April		(341,946)
5,526	Opening Balance adjustment		0
(381,099)	Revised Opening Balance		(341,946)
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement (CIES):		
48,932	• Charges for depreciation and impairment on non-current assets	58,366	
50,705	• Revaluation movements on property, plant and equipment	20,755	
50	• Amortisation of intangible assets	149	
69	• Revenue expenditure funded from capital under statute	84	
573	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the CIES	936	
100,329			80,290
(23,456)	Adjusting amounts written out of the Revaluation Reserve		(31,250)
76,873	Net written out amount of the cost of non-current assets consumed in the year		49,040
	Capital financing applied in the year:		
(528)	Use of capital receipts to finance new capital expenditure	(1,152)	
(28,231)	Capital grants and contributions credited to the CIES that have been applied to capital financing	(37,765)	
0	Transfer of receipt to capital fund	732	
(14,480)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(15,245)	
2,796	Application of Service concessions	3,005	
528	Use of Capital Fund reserve to finance Capital Expenditure	0	
(39,915)			(50,425)
2,195	Other movements		2,050
(341,946)	Balance at 31 March		(341,281)

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.

2024/25 £000	Financial Instruments Adjustment Account	£000	2025/26 £000
1,310	Balance at 1 April		1,143
(155)	Premiums incurred in the year		(107)
(12)	Amount by which finance costs charged to the CIES are different from finance costs chargeable in year in accordance with statutory requirements		(12)
1,143	Balance at 31 March		1,024

Pensions Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income

and Expenditure Statement (CIES) as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employers contributions to pension funds or eventually pays any pensions for which it is directly responsible. The pension reserve mirrors the net pension asset/liability, as detailed in **Note 30**.

2024/25 £000	Pensions Reserve	2025/26 £000
7,612	Balance at 1 April	6,433
4,896	Re-measurements of the net defined benefit liability/(asset)	18,107
11,042	Reversal of items relating to net changes for retirement benefits charged to Surplus or Deficit on the Provision of Services in the CIES	(581)
(17,117)	Employers' pension contributions charged to Surplus or Deficit on the Provision of Services in the CIES	(17,835)
6,433	Balance at 31 March	6,124

Accumulated Absences Account

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

2024/25 £000	Accumulated Absences Account	£000	2025/26 £000
8,995	Balance at 1 April		10,144
(8,995)	Settlement or cancellation of accrual made at the end of the preceding year	(10,144)	
10,144	Amounts accrued at the end of the current year	11,314	
1,149	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		1,170
10,144	Balance at 31 March		11,314

24. External Audit Costs

The estimated fee payable by the Council to Audit Scotland in respect of the work conducted for external audit services is £0.308 million (2023/24 £0.295) million). Where further additional work is required, fees will be agreed with management and reported to the Audit Committee.

25. Related Parties

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

The Scottish Government

The Scottish Government has significant influence over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides much of its funding in the form of grants, and prescribes the terms of many of the transactions that the Council has with other parties (such as Council Tax bills and Housing Benefits). Further information is contained with **Note 11 Taxation and Non-specific Grant Income** and **Note 12 Grant Income in the Annual Accounts**.

Elected Members

Elected members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2025/26 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 2025/26 were declared by nine members:

- With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.171 million;
- With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £1.452 million.

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

Officers

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

Other Public Bodies

The Council has a number of joint working arrangements with other local authorities. In 2025/26 payments of £1.692 million were made to other local authorities and income of £0.823 million was received from other local authorities.

Midlothian Integration Joint Board

The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.903 million of resource transfer funding to the Council in 2025/26 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, £1.324 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

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

The Council delegated resources totalling £74.575 million to the Midlothian Integration Joint Board in 2025/26. 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 2026 the Council held £0.007 million on behalf of the Board.

Other Entities Controlled or Significantly Influenced by the Council

During the year, the Council incurred transactions with the Lothian Valuation Board. This amounted to £0.644 million (2024/25 £0.613 million). There was no balance due to or from the Lothian Valuation Board as at 31 March 2026.

Midlothian Energy Limited was set up in 2021/22 as a 50:50 joint venture with Vattenfall Heat UK to generate, distribute and supply energy. The company has been consolidated into the Group Accounts and details of all other entities in which the Council has significant interest are explained in the Group Accounts in **Note 33**.

26. 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.

2024/25 £000	Capital Expenditure and Capital Financing	2025/26 £000
505,516	Opening Capital Financing Requirement	567,676
	Capital Investment:	
12,830	Council Dwellings	16,023
1,911	Buildings	5,424
28	Land	126
10,734	Vehicles, Plant & Equipment	9,233
374	Community Assets	319
66,331	Assets under Construction	58,439
9,279	Infrastructure Assets	10,758
1	Heritage Assets	0
395	Intangible Assets	7
69	Revenue Expenditure funded by Capital Under Statute	84
101,952	Total Capital Investment	100,413
	Sources of Finance:	
(175)	Capital Receipts	(420)
2,796	Application of Service Concessions	3,005
(28,056)	Government Grants and Other Contributions	(37,027)
(573)	Donated asset	(573)
(14,122)	Loans fund and PPP lease repayments	(15,134)
338	Closing Balance Adjustment – IFRS 16 PPP Lease Remeasurement	(25)
(39,792)	Total Sources of Finance	(50,174)
62,160	Increase/(decrease) in Capital Financing Requirement	50,239
567,676	Closing Capital Financing Requirement	617,915

27. Leases

Authority as lessee

The Council's lease contracts comprise leases of operational land and buildings, plant and equipment and motor vehicles. All leases that fall in scope of IFRS 16 identified are individually immaterial.

Right-of-use assets

This table shows the change in the value of right-of-use assets held under leases by the Council.

2024/25 £000	Right of Use Assets	2025/26 £000
442	Balance at 1 April	270
0	Additions	593
0	Revaluations	(113)
(172)	Depreciation	(316)
0	Disposals	(102)
270	Balance at 31 March	332

Transactions under leases

The Council incurred the following expenses and cash flows in relation to leases.

2024/25 £000	Lease Transactions	2025/26 £000
	Comprehensive income and expenditure statement	
25	Interest expense on lease liabilities	37
229	Expense relating to short-term leases	182
335	Expense relating to low value items	30
314	Variable lease commitments not included in the measurement of lease liabilities	597
0	(Gains) or losses arising from sale and leaseback transactions	20
	Cash flow statement	
197	Minimum lease payment	548

Maturity analysis of lease liabilities

The lease liabilities are due to be settled over the following time bands (measured at the undiscounted amounts of expected cash payments).

2024/25 £000	Maturity Analysis	2025/26 £000
189	Less than one year (Short-term creditors)	227
76	One to five years (Long-term liabilities)	136
265	Total Undiscounted Liabilities	363

Authority as lessor

The council leases out property under operating leases for the following purposes:

- For the provision of community services, such as sports facilities, tourism centres and community centres;
- For economic development purposes to provide suitable affordable accommodation for local businesses.

Transactions under leases

The Council made £1.211 million (2024/25 £1.113 million) in operating lease income as a lessor during the year. These are cancellable rental agreements that continue on a month by month basis under silent renewal, however it is anticipated that £1.350 million per annum will be received in future years from these agreements (these figures do not include rents that are contingent upon events taking place after the agreement was entered into, such as rent reviews).

Midlothian Council has no finance leases where the Council is a lessor.

28. 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 DBFM 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. This is a non-service concession contract and due to the variable nature of the contract falls out of scope of IFRS 16.

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 17 April 2019, the contract was in the commissioning phase, with full service commencement achieved on 1 April 2020. The asset will be fully maintained throughout the life of the contract in accordance with the Partner Council's requirements and will be inspected 18 months prior to the end of the contract (contract end date 6 May 2044) to ensure that it has been maintained. The asset will then be handed back to the Partner Councils in a condition that is commensurate with such maintenance. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following

the issue of a contractor default notice, the issue of a Partner Council Default notice, or voluntary termination by the Partner Councils with variable notice periods as defined in the contract.

Property, Plant and Equipment

The assets used to provide the services at the Dalkeith Schools Community Campus, the Primary Schools, the Newbattle Community Campus and the Millerhill Residual Waste Plant are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in **Note 14**.

Payments

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

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

Payments remaining to be made under these contracts at 31 March 2026 are as follows:

	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000
Dalkeith Schools Campus				
Within 1 Year	1,468	1,584	2,515	5,567
Within 2 to 5 Years	7,535	4,672	10,059	22,266
Within 6 to 10 Years	6,495	1,234	6,370	14,099
Total Remaining Contract	15,498	7,490	18,944	41,932

	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000
Midlothian Primary Schools				
Within 1 Year	1,321	1,648	2,783	5,752
Within 2 to 5 Years	6,319	5,554	11,133	23,006
Within 6 to 10 Years	10,863	3,979	13,916	28,758
Within 11 to 15 Years	4,089	402	4,213	8,704
Total Remaining Contract	22,592	11,583	32,045	66,220

	Liability	Interest	Service Charge	Total
	£000	£000	£000	£000
Newbattle Community Campus				
Within 1 Year	1,034	1,376	168	2,578
Within 2 to 5 Years	4,686	4,953	671	10,310
Within 6 to 10 Years	7,321	4,729	838	12,888
Within 11 to 15 Years	9,369	2,681	838	12,888
Within 16 to 20 Years	4,796	379	361	5,536
Total Remaining Contract	27,206	14,118	2,876	44,200

	Donated Asset	Liability	Interest	Service Charge	Total
Millerhill Residual Waste	£000	£000	£000	£000	£000
Within 1 Year	573	55	903	1,373	2,904
Within 2 to 5 Years	2,293	242	3,520	5,873	11,928
Within 6 to 10 Years	2,867	757	3,986	8,061	15,671
Within 11 to 15 Years	2,867	1,695	2,918	9,140	16,620
Within 16 to 20 Years	2,293	2,060	747	6,244	11,344
Total Remaining Contract	10,893	4,809	12,074	30,691	58,467

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable while the capital expenditure remains to be reimbursed. The liability outstanding for capital expenditure incurred is as follows:

2024/25				2025/26		
Liability £000	Donated Asset £000	Total £000	Liabilities	Liability £000	Donated Asset £000	Total £000
76,699	12,039	88,738	Balance Outstanding at 1 April	74,273	11,466	85,739
(3,602)	0	(3,602)	Payments during the year	(3,602)	0	(3,602)
1,176	(573)	603	Other Movements	(22)	(573)	(595)
74,273	11,466	85,739	Balance at 31 March	70,649	10,893	81,542

2024/25 £000	Included in the Balance Sheet	2025/26 £000
4,175	Current (Short-term Creditors)	4,451
81,564	Non-Current (Other Long-term Liability)	77,091
85,739	Balance at 31 March	81,542

Service Concession Arrangements (SCA's)

Midlothian Council has adopted the revised accounting arrangements under Local Government Finance Circular 10/2022 – Finance Leases and Service Concession Arrangements.

The current repayment charges for each SCA have been compared against an annuity repayment profile based on the estimated useful asset lives. The calculation of the repayment charges of each SCAs or Public Private Partnership (PPP) scheme using the asset life annuity basis is compared to the current charges which are made over the contract period and summarised as follows:

Year	Current Repayment £000	Revised Repayment £000	Total (reduction)/Cost £000	NPV £000
Pre 2023/24	23,783	3,320	(20,463)	(20,463)
2023/24	3,120	512	(2,608)	(2,520)
Years 2 to 5	14,973	2,486	(12,487)	(11,045)
Years 6 to 10	26,182	4,441	(21,741)	(16,443)
Years 11 to 25	35,541	30,466	(5,075)	(5,387)
Years 26 to 40	0	43,663	43,663	14,375
Years 41+	0	18,711	18,711	4,250
Total Saving	103,599	103,599	0	(37,233)

The total cumulative statutory adjustment up to the 31st March 2023 which would result from changing the calculation of the repayment of debt liability on the four SCAs using a 60-year, 50-year and a 26-year annuity period respectively is £20.463m. This is a one off in year reduction, compared to the current schedule of repayments. In the financial years up to the expiry date of each contract date(s) there would be further reductions. In the remaining years following the end of the SCAs, the rescheduled debt repayments continue until the debt liability has been extinguished.

Over the full life of the SCAs the total repayment for the debt liability remains the same. However, when a Net Present Value (NPV) is applied the re-profiled charges would result in a total reduction in NPV terms of £37.233m.

29. Pension Schemes Accounted for as Defined Benefit Contribution Schemes

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

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

In 2025/26 the Council paid £15.704 million (2024/25 £15.202 million) to the Scottish Government in respect of teachers' pension costs. There were no contributions remaining payable at year-end. The rate of contribution was 26% for 2025/26 (2024/25 26%).

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside the terms of the teachers' scheme. These costs are accounted for on defined benefit basis (detailed in **note 30**).

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

30. Defined Benefit Pension Schemes

Participation in Pension Schemes

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

The Council participates in the Local Government Pension (Scotland) Scheme, administered by Lothian Pension Fund. This is a funded defined benefits scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with the investment assets.

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

Transactions Relating to Post-employment Benefits

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

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

2024/25 £000	Comprehensive Income and Expenditure Statement (CIES)	2025/26 £000
	Cost of services:	
	<i>Service Cost Comprising:</i>	
19,766	• Current service cost	15,378
156	• Past service cost (including curtailments)	0
	<i>Financing and Investment Income and Expenditure:</i>	
(8,880)	• Net interest (income)/expense	(15,959)
11,042	Total Post-employment Benefit Charged to the Surplus or Deficit on the Provision of Services	(581)
	Other Post Employment Benefit charged to the Other Comprehensive Income & Expenditure Statement:	
	<i>Re-measurement of the Net Defined Benefit Asset Comprising:</i>	
15,001	• Return on plan assets	(24,715)
(89,635)	• Actuarial (gains)/losses arising on changes in financial assumptions	(15,848)
(911)	• Actuarial (gains)/losses arising on changes in demographic assumptions	3,027
86,235	• Actuarial (gains)/losses arising on changes in the effect of limiting a net defined benefit asset to the asset ceiling	51,456
(5,794)	• Other re-measurement experiences	4,187
4,896	Total post-employment benefits charged to the Other Comprehensive Income & Expenditure Statement	18,107
15,938	Total post-employment benefits charged to the CIES	17,526

2024/25 £000	Movement in Reserves Statement	2025/26 £000
(11,042)	Reversal of net charges made to the surplus or deficit for the provision of services for post-employment benefits in accordance with the code	581
17,117	Employers Contributions payable to the scheme	17,835
6,075	Total Charged to the Movement in Reserves	18,416

Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of the defined benefit plan is normally the net present value of the defined benefit obligation and the fair value of the plan assets. However, since 2022/23 the actuarial gains arising from changes in the financial assumptions have resulted in a net asset position.

IAS 19 Employee Benefits requires that the net defined benefit asset recognised in the Balance Sheet is measured at the lower of:

- The net asset position in the defined benefit fund, and
- The asset ceiling, which is defined as ‘the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan’. Reductions in future contributions to the plan was used as the basis to determine the amount of the economic benefit as Midlothian Council has no unconditional right to a refund from the Fund and therefore there is no economic benefit available as a refund.

As a result, the net pension asset to be recognised in the Balance Sheet has been revised to reflect the Asset Ceiling adjustment advised by Lothian Pension Fund’s actuaries, Hymans Robertson. As a result of the asset ceiling adjustment, the net liability of £6.124 million has been recognised at 31 March 2026. This is equivalent to the present value of the Council’s unfunded obligations under the Local Government Pension Scheme.

2024/25 £000	Pensions Assets and Liabilities Recognised in the Balance Sheet	2025/26 £000
(486,187)	Present value of the defined benefit obligation	(507,488)
760,130	Fair value of Plan Assets	833,196
273,943	Net (liability)/asset arising from defined benefit obligation	325,708
(280,376)	Restriction Adjustment under IFRIC 14	(331,832)
(6,433)	Revised Net (liability)/asset arising from defined benefit obligation	(6,124)

2024/25 £000	Reconciliation of the present value of the scheme liabilities (defined benefit obligation)	2025/26 £000
550,295	Opening Balance at 1 April	486,187
19,766	Current service cost	15,378
26,531	Interest Cost	28,247
5,419	Contributions by Scheme Participants	5,725
	<i>Re-measurement (gains)/losses</i>	
(89,635)	• Changes in financial assumptions	(15,848)
(911)	• Changes in demographic assumptions	3,027
(5,794)	• Other	4,187
156	Past service cost (including curtailments)	0
(751)	Unfunded Benefits Paid	(716)
(18,889)	Benefits Paid	(18,699)
486,187	Closing Balance at 31 March	507,488

2024/25 £000	Reconciliation of the movements in the fair value of scheme assets	2025/26 £000
736,824	Opening fair value of scheme assets	760,130
35,411	Interest Income	44,206
	<i>Re-measurement gains/(losses):</i>	
(15,001)	• Return on assets excluding amounts included in net interest expense	24,715
0	• Other	
16,366	Contributions from Employer	17,119
5,419	Contributions from employees into the scheme	5,725
(18,889)	Benefits Paid	(18,699)
751	Contributions in respect of Unfunded Benefits	716
(751)	Unfunded Benefits Paid	(716)
760,130	Closing Balance at 31 March	833,196

Asset Ceiling Adjustment

In accordance with International Accounting Standard 19 and the guidance issued under International Financial Reporting Interpretations Committee – Interpretation 14, the Asset Ceiling has been determined as follows:

2024/25 £000	Asset Ceiling	2025/26 £000
658,215	Net present value of estimated future service costs	607,477
(913,931)	Net present value of future contributions	(886,268)
(255,716)	Asset Ceiling	(278,791)

For 2025/26, as the net present value of estimated future service costs is less than the net present value of future contributions, the Asset Ceiling is determined to be nil. A net liability of £6.124 million has been recognised at 31 March 2026. This is equivalent to the present value of the council's unfunded obligations under the Local Government Pension Scheme.

Local Government legislation provides that Local Authorities have an obligation to meet their share of the expenditure of the Joint Boards of which they are constituent members. At 31 March 2026, the liability for Pensions sits at £1.079 million (2024/25 £1.275 million). As a consequence the Council has additional assets arising from the pension surplus of the Lothian Valuation Joint Board.

Basis for Estimating Assets and Liabilities Recognised

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years are dependent on assumptions about mortality rates, salary levels etc.

The Local Government Pension Scheme liabilities have been estimated by Hymans Robertson LLP, an independent firm of actuaries and estimates for the pension fund are based on the latest full valuation of the scheme as at 31 March 2023.

The significant assumptions used by the actuary have been:

2024/25	Mortality Assumptions	2025/26
	Longevity at 65 for Current Pensioners:	
20	- Men (Years)	20
23	- Women (Years)	23
	Longevity at 65 for Future Pensioners:	
20.8	- Men (Years)	21
24.5	- Women (Years)	25
	Financial Assumptions	
2.8%	Rate of Inflation/increase in pensions	3%
3.5%	Rate of increase in salaries	3.7%
5.8%	Rate for discounting scheme liabilities	6.2%
2.8%	Actual Rate of Investment Returns	9%

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 those used in the previous period.

Pension Sensitivities at 31 March 26	Approximate % increase to the Employer Obligation	Approximate monetary amount £000
0.1% decrease Real Discount Rate	2%	8,351
1 year increase in member life expectancy	4%	20,300
0.1% increase in the Salary Increase Rate	0%	491
0.1 % increase in the Pension Increase Rate (CPI)	2%	7,850

Local Government Pension Scheme Assets Comprised

2024/25			2025/26			
Fair Value of Scheme Assets	Percentage of Total Assets		Quoted prices in active markets	Quoted prices not in active markets	Total Fair Value of Scheme Assets	Percentage of Total Assets
£000		Pension Fund Assets	£000	£000	£000	
26,070	3%	Cash and Cash Equivalents	38,621	0	38,621	5%
		Equity Instruments:				
96,319	13%	Consumer	105,066	0	105,066	13%
91,509	12%	Manufacturing	100,230	0	100,230	12%
42,516	6%	Energy and Utilities	42,696	0	42,696	5%
42,441	6%	Financial Institutions	50,231	0	50,231	6%
48,054	6%	Health and Care	56,368	0	56,368	7%
23,515	3%	Information Technology	29,242	24	29,266	4%
51,223	7%	Other	53,300	0	53,300	6%
395,577	53%	Sub-total Equity	437,133	24	437,157	53%
		Bonds:				
0	0%	Corporate	13,757	11,394	25,151	3%
132,552	17%	Government	155,591	0	155,591	19%
12,478	2%	Other	0	0	0	0%
145,030	19%	Sub-total bonds	169,348	11,394	180,742	22%
		Property:				
28,588	4%	UK	4,665	30,065	34,730	4%
0	0%	Overseas	1,710	2,249	3,959	0%
28,588	4%	Sub-total Property	6,375	32,314	38,689	4%
		Investment Trusts and Unit Trusts:				
1,322	0%	Equities	1,422	0	1,422	0%
24,090	3%	Bonds	1,515	0	1,515	0%
2,944	0%	Infrastructure	0	133,312	133,312	16%
6300	1%	Other	0	0	0	0%
34,656	4%	Sub-total Trusts	2,937	133,312	136,249	16%
130,063	17%	Private Equity (all)	999	739	1,738	0%
146	0%	Derivatives: Forward Foreign Exchange Contracts	0	0	0	0%
760,130	100%	Total Assets	655,413	177,783	833,196	100%

Impact on the Council Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The fund has agreed a strategy with the scheme's actuary to achieve a funding level of 100% of the overall liabilities of the fund in the longer term. Funding levels are monitored on an annual basis. The latest triennial valuation was completed 31 March 2026, with results to be published by 31 March 2027 and will impact contribution rates from 1 April 2027.

The Council anticipates to pay £17.129 million in contributions to the scheme to 31 March 2027.

The weighted average duration of the defined benefit obligation scheme members is 17 years for 2025/26 (17 years 2024/25).

31. Contingent Liabilities

The assimilation of the stand-alone Lothian Buses Pension Fund into the general Lothian Pension Fund required all four Council shareholders in Lothian Buses Limited to enter into a deed of guarantee and function 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 the liability is several in its nature and the City of Edinburgh Council (as administering authority) would look to the four Council shareholders to make good any liability.

32. Trusts and Bequests

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

The main funds are:

2024/25 £000	Trusts, Bequests, Common Good and Community Funds	2025/26 £000
8	Dalkeith Common Good Fund	9
2	Penicuik Common Good Fund	2
55	Community Mining Funds	55
115	Other Funds	120
180	Total	186

A total £0.121 million (2024/25 £0.115 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.

33. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2025/26 (The Code) applies to Local Authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

Valuation of Property, Plant and Equipment

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

Depreciation

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

Goodwill

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

Basis of Consolidation

Subsidiaries are consolidated on a line-by-line basis. All other entities are accounted for under the accounting conventions of the “acquisition basis” using the equity method – the Council’s share of the entities results and its share of other gains and losses (recognised in the Group CIES). With the exception of Midlothian Energy Ltd, whose reporting date is 31 December, all entities have the same reporting date as the Council.

Restrictions of 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:

Entity	Percentage Share in Entity	Share of Assets £000	Share of Liabilities £000	Net Share of Assets £000	Share of Revenues £000	Share of (Profit)/Loss £000
Subsidiaries:						
Trusts, Bequests, Common Good and Community Funds	100	186	(186)	0	(7)	(7)
		186	(186)	0	(7)	(7)
Associates:						
Lothian Valuation Joint Board	9	300	(326)	(26)	(1,277)	7
Joint Ventures:						
Midlothian Integration Joint Board	50	897	0	897	(109,426)	(423)
Midlothian Energy Ltd	50	16,123	(10,027)	6,096	810	0
Total Joint Ventures & Associates		17,320	(10,353)	6,967	(109,893)	(416)
Total for Group		17,506	(10,539)	6,967	(109,900)	(423)

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, Fairfield House, Lothian Road, Dalkeith
Associates:		
Lothian Joint Valuation Board	Maintains the electoral, council tax and non-domestic rates registers for the Edinburgh, Midlothian, West Lothian and East Lothian Councils.	The Treasurer, Lothian Joint Valuation Board, Edinburgh Council, Waverly Court, Edinburgh
Joint Ventures:		
Midlothian Integration Joint Board	Its purpose is to improve the well-being of families, our communities and of people who use health and social care services. The Integration Scheme determines when the Council will have shared responsibility for additional funding with NHS Lothian and is linked to demographic shifts and demand volumes linked to service delivery.	Midlothian Council, Fairfield House, Lothian Road, Dalkeith
Midlothian Energy Limited	Energy generation, distribution and supply.	Midlothian Council, Fairfield House, Lothian Road, 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.

Supplementary Statements

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.

2024/25 £000	HRA Income and Expenditure Statement	£000	2025/26 £000
	Expenditure:		
12,062	Repairs and Maintenance	12,216	
5,259	Supervision and Management	6,977	
65,453	Depreciation, impairment and revaluation non-current assets	29,443	
720	Movement in the allowance for bad debtors	230	
1,432	Void rent and council tax	1,109	
2,384	Other Expenditure	1,597	
87,310	Total Expenditure		51,572
	Income:		
(35,575)	Dwelling Rents	(36,994)	
(704)	Non-dwelling Rents	(722)	
(159)	Service Charge Income	(323)	
(69)	Other Income	(61)	
(36,507)	Total Income		(38,100)
50,803	Net Expenditure or (Income) of HRA services as included in the Comprehensive Income and Expenditure Statement		13,472
348	HRA Share of Corporate and Democratic Core		361
51,151	Net (Income)/expenditure for HRA Services		13,833
	HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:		
455	(Gain) or Loss on sale of HRA non-current assets	(361)	
10,398	Interest payable and similar charges	11,269	
(1,853)	Interest and investment income	(1,404)	
(50)	Net interest on the net defined liability benefit liability (asset)	(86)	
8,950			9,418
60,101	(Surplus)/Deficit for the year on HRA Services		23,251

Movement in the Housing Revenue Account

2024/25 £000	Movement on the HRA Statement	£000	2025/26 £000
(33,182)	Balance on the HRA at the end of the previous reporting period		(31,910)
60,101	(Surplus) or deficit for the year on the HRA Income and Expenditure Statement		23,251
	Adjustments between accounting basis and funding basis under statute:		
(65,452)	Depreciation, impairment and revaluation non-current assets	(29,443)	
(455)	Gain or (Loss) on sale of HRA non-current assets	361	
7,047	Loans Fund Principal	7,403	
31	Net charges made for retirement benefits in accordance with IAS 19	96	
(58,829)	Total Adjustments between accounting basis and funding basis under statute		(21,583)
1,272	(Increase) or Decrease in year on the HRA		1,668
(31,910)	Balance on the HRA at the end of the current reporting period		(30,242)

Notes to the Housing Revenue Account

Housing Stock

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

2024/25	Housing Stock	2025/26
1,132	1 Bedroom	1,144
4,149	2 Bedroom	4,191
2,006	3 Bedroom	2,026
336	4 Bedroom	339
11	5/6 Bedroom	11
7,634	Total Housing Stock at 31 March	7,711

This represents an increase in the year of 77 units (2024/25 105), which is represented in the table below:

2024/25	Increase/(decrease) in Housing Stock	2025/26
100	New Build Completions	68
7	Open Market Purchases	10
(2)	Re-purposed units for temporary accommodation	0
0	Demolition/Disposal	(1)
105	Net increase in Housing Stock at 31 March	77

Other Information

2024/25 £000	Other Information	2025/26 £000
7,755	Total Rent Arrears	8,517
4,100	Bad Debt Provision	4,330

Council Tax Income Account

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

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

2024/25 £000	Council Tax Income Account	2025/26 £000
73,857	Gross Council Tax levied and Contributions in Lieu	82,989
	Less:	
(5,876)	Council Tax Reduction Scheme	(6,401)
(7,219)	Other Discounts and Reductions	(8,143)
(2,487)	Write-off of Uncollectable Debts and Allowances for impairment	(2,793)
19	Prior year adjustments	270
58,294	Net Council Tax Income transferred to General Fund	65,922

Midlothian Council Tax Charge and Properties by Band

2024/25 Property Numbers	2024/25 £ per Property	Band	2025/26 Property Numbers	2025/26 £ per Property
1	842	A - Disabled	1	926
598	1,010	A	598	1,111
8,516	1,178	B	8,522	1,296
8,699	1,346	C	8,771	1,481
5,253	1,515	D	5,309	1,666
5,135	1,990	E	5,237	2,189
4,498	2,461	F	4,718	2,708
3,009	2,966	G	3,207	3,263
180	3,711	H	178	4,082
35,889			36,541	

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.

2024/25 £000	Non-Domestic Rate Income Account	2025/26 £000
49,794	Gross rates levied and Contributions in Lieu	50,210
	Less:	
(10,398)	Reliefs and other deductions	(10,630)
(1,066)	Write-off of Uncollectable Debts and Allowances for impairment	(1,111)
38,330	Net Non-Domestic Rates Income	38,469
(2,260)	Prior year adjustments	(2,288)
(42)	Non-domestic rates income retained by the council (NDRIS)	0
36,028	Contribution to Non-Domestic Rate Pool	36,181
	Allocated:	
36,170	Contribution to non-domestic rate pool	36,302
(142)	Council Rate Income - non-pool	(121)
36,028		36,181
34,944	Amount distributed to Midlothian Council from non-domestic rate pool	36,181

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

Net Rateable Value Calculation

Occupiers of non-domestic property pay rate based on the valuation of the property within the valuation roll for Midlothian. The NNDR poundage is determined by the Scottish Government and was 49.8p (2024/25 49.8p) per £, where the rateable value was less than £51,000, 55.4p (2024/25 54.5p) where the rateable value is between £51,000 and £100,000, and 56.8p (2024/25 55.9p) per £ where the rateable value exceeded £100,000.

2024/25 Numbers	2024/25 £000	Analysis of Rateable Values and Number of Premises	2025/26 Numbers	2025/26 £000
1,836	49,835	Shops, Offices and Other Commercial Subjects	1,869	49,269
960	19,560	Industrial and Freight Transport	959	19,489
302	23,320	Miscellaneous (Schools, etc.)	304	23,458
3,098	92,715	Total	3,132	92,216

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 using 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 highly 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, supplies, and services. It also includes the costs of the repayment of loans used to finance capital expenditure.