Best Value

Midlothian Council



ACCOUNTS COMMISSION

Prepared by the Controller of Audit
December 2026

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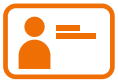
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Accessibility

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Key facts

	**136.7**	Square miles
	**100,390**	Population (mid-2025 estimation)
	**8.7%**	Proportion of all data zones in Midlothian that are within the 20 per cent most deprived in Scotland, according to Scottish Index of Multiple Deprivation (2020)
	**4,227**	Workforce (FTE)
	**18**	Elected members 9 Scottish National Party, 6 Scottish Labour, 2 Conservative and one other member (Minority SNP administration)
	**£19.4m**	General Fund funding gap (after savings) projected to 2028/29
	**£329.1m**	Net revenue budget 2025/26
	**£99.8m**	Capital expenditure 2025/26 (General Fund £52.7 million and Housing Revenue Account £47.1 million)

Commission findings

The Accounts Commission welcomes and endorses the report by the Controller of Audit on Best Value in Midlothian Council (presented at page 6) and the recommendations made by the auditors in their Annual Audit Report 2025/26. Following consideration of these reports at its meeting on 5 November 2026, the Commission has made the following findings:

1 We are pleased to see the council's progress since the 2019 Best Value Assurance Report. This includes establishing a clear strategic vision, developing a medium-term financial strategy, improving relationships between elected members and officers, and putting in place sound governance and oversight arrangements for transformation. These foundations are particularly important given the council's rapidly growing population and the associated demand-led cost pressures it faces. However, the scale and pace of change now needs to increase significantly. Against the backdrop of public service reform, we would urge the council to agree and implement a more ambitious programme of transformation that reflects the scale of the council's future financial, demographic and service demand challenges.

2 We note that the council is finding it increasingly difficult to deliver agreed savings targets and financial pressures have been managed in recent years using reserves, one-off measures and service concession flexibilities. While balanced budgets have been achieved, there is limited evidence that it has yet taken the strategic decisions required to deliver financial sustainability. Maintaining constructive relationships between elected members and officers will be critical to ensure the effective challenge and scrutiny of the strategic change and difficult financial decisions that are now necessary. Members must continue to ensure that planned savings and benefits are realised.

3 We welcome the council's strong track record of partnership working and engagement with stakeholders and communities and its approach to embedding impact assessment. Maintaining and strengthening this approach will become increasingly important as its future transformation programme requires more difficult choices about priorities, service redesign, and resource allocation. Effective engagement with communities will continue to be essential in helping people understand the challenges facing the council and in maintaining support for change.

4 The council clearly recognises the importance of workforce planning in supporting future transformation and maintaining service delivery. Its initiatives to address recruitment and retention challenges are encouraging, including work with education providers, workforce succession planning and new approaches to staff engagement. Given Midlothian's location and unique position as one of Scotland's fastest-growing council areas, its workforce strategy needs to remain flexible and responsive to changing population needs and increasing service demand. We look forward to seeing the outcome of the December 2026 strategy review.

5 Given the substantial investment that will undoubtedly be required to support population growth, there is a need for clarity and transparency around the council's overall debt position moving forward. We would encourage the council to maintain its focus on affordability and ensure that elected members and the public have clear information on planned borrowing and the long-term revenue implications of borrowing decisions.

Controller of Audit report

1. This report is made by the Controller of Audit to the Commission under Section 102(1) of the amended Local Government (Scotland) Act 1973. It is based on evidence collected in the annual audits of the council from 2022/23 to 2025/26 with the latter reported in September 2026. Appendix 1 includes links to the Annual Audit Reports (AAR) since 2022/23 and Appendix 2 includes a link to the Best Value Statutory Guidance.

2. The reporting of Best Value is undertaken through the annual audit of each council and includes detailed work focusing on a Scotland-wide theme. The Best Value theme for 2022/23 was councils' leadership of the development of new local strategic priorities while the 2023/24 theme focused on workforce innovation. The theme for 2024/25 was transformation and how councils are redesigning and delivering services to achieve planned outcomes and the theme for 2025/26 was asset management.

Pace of continuous improvement

3. The council has made good progress since its Best Value Assurance Report (BVAR) in 2019. It has responded positively to audit recommendations and made substantial progress in a short period of time on recent areas identified for improvement by auditors, while maintaining existing areas of strength.

4. The council has made progress with auditors' recommendations in relation to transformation. This has included improvements in prioritisation of projects, governance, oversight and reporting to senior officers and elected members, and public reporting.

5. However, the council will need to accelerate the pace and scale of transformation activity if it is to achieve medium-term financial sustainability, not least because it has the fastest-growing population in the medium term of any council area in Scotland. By 2032, Midlothian's population is projected to grow to 111,292 people, which presents opportunities and challenges for the council and has implications for the pace and scale of transformation that the council needs to deliver.

6. In recent years, the council has been reliant on reserves to balance its budget which is not sustainable. To mitigate the projected budget gap, the council recognises it must identify and deliver substantial recurring savings through service reprioritisation.

Best Value Assurance Report (BVAR) follow up

7. In its 2019 BVAR, the Commission concluded that the council needed to make significantly better progress against its Best Value obligations and made eight recommendations, including: refining its vision following consultation; developing a medium-term financial strategy (MTFS); aligning workforce planning to that strategy; improving working relationships between elected members and officers; strengthening scrutiny and personal development planning for elected members; reviewing the capital programme and improving monitoring; continuing financial planning to address budget gaps; and building on positive community empowerment work. The 2024/25 Annual Audit Report noted that all actions have been implemented.

8. The Commission recognised the council's strong record of joint working with partners but also emphasised the urgent need to introduce a MTFS and for elected members to provide stronger leadership in delivering change and making difficult decisions about future services.

9. The MTFS has been in place since December 2023 and a recently updated version was presented to the council in June 2026. Auditors highlighted in the 2025/26 AAR that the MTFS sets out the council's aim to achieve financial sustainability by ensuring that recurring expenditure is supported by recurring sources of income, however, the council has identified significant gaps and closing these will require the delivery of substantial recurring savings through service reprioritisation, transformation and redesign. The council have managed the budget to date through council tax increases, use of reserves, income generation (particularly growing income in leisure services) and moderate savings.

10. Auditors observed improved working relationships between elected members and officers, in areas including the Cost-of-Living Taskforce and the Transformation Blueprint. Additionally, there are examples of effective cross-party working through groups such as the Business Transformation Steering Group, which is working to deliver the Transformation Blueprint, scrutinises transformation proposals prior to being presented at council, advises on transformation priorities and risks, and allocates funding from the council's Transformation Fund.

Vision, leadership and governance

11. Auditors concluded that the council's arrangements for vision, leadership and governance are effective and appropriate. The council has a well-developed strategic planning framework comprising the Single Midlothian Plan (a local outcome improvement plan shared with its community planning parters), its Corporate Plan, and supporting operational plans. Together, these documents set out the council's vision, priorities and intended outcomes and provide a clear basis for planning and delivering services.

12. The council has detailed financial and performance reporting in place, both internally and externally, that is linked to its operational plans, with effective scrutiny and challenge of performance provided by the Performance Review and Scrutiny Committee.

13. Auditors have not raised any concerns around the conduct of committee meetings and elected member engagement and have commented on the positive working relationships.

Citizen and community engagement

14. Auditors highlighted in the 2025/26 annual audit that the council reported it was able to demonstrate strong achievements and performance around community engagement.

15. The council has previously engaged with its communities as part of its budget-setting asking its residents to rate the extent to which savings proposals would negatively impact them. In the 2024/25 Best Value thematic report on transformation, it was noted that four out of the five transformation projects prioritised for 2025/26 were included in the budget consultation and results for all four showed that the majority of respondents rated these as having a low or no negative impact on them.

16. As reported in the Best Value thematic on asset management, the council has been able to demonstrate how its engagement with communities on its assets has been used to inform decisions, for example it included feedback received from communities to inform the design of the Mayfield Learning Community Campus. Additionally, one of the ten key principles underpinning the council's Strategic Infrastructure Investment Framework is that decision-making should be 'community led', intended to ensure that community members have opportunities to comment on, and influence, decisions affecting them at each stage of the project development process.

Effectiveness of performance reporting

17. In 2024, the Accounts Commission published a new version of the Statutory Performance Information (SPI) Direction, which took effect from April 2025. Auditors concluded the arrangements the council has in place for preparing and publishing SPI are effective and appropriate. Auditors reported the council had fully implemented the recommendation relating to performance reporting from the 2023/24 annual audit.

18. The council has a well-established Planning and Performance Management Framework (PPMF) which provides a structured approach to monitoring performance and supporting delivery of outcomes. It was published in 2023 and recently refreshed in 2025. The council presents quarterly and annual performance reports to the Cabinet and the Performance, Review and Scrutiny Committee. In response to an audit recommendation in 2023/24, the council has put in place clear

arrangements to identify areas of underperformance and put in place corrective actions via service performance reports.

19. The council's Local Outcomes Improvement Plan, the Single Midlothian Plan, sets out the shared priorities and outcomes for Midlothian. The Community Planning Partnership Board regularly monitors performance against the plan, with annual reports setting out progress and key achievements. The council also uses a balanced scorecard to monitor the performance of services for which it is directly responsible.

Council performance reporting

20. In June 2026, the council presented the latest update of its Balanced Scorecard, to the Performance, Review and Scrutiny Committee. This set out progress against 122 performance indicators (PIs). A summary of these PIs for 2025/26 is set out below in Exhibit 1. Performance was mixed across the indicators, with slightly more indicators assessed as off target than on target.

Exhibit 1.
Summary of progress on PIs for 2025/26

	On target	Off target	Data only	No data yet
Performance indicator progress	21 (17%)	24 (20%)	72 (59%)	5 (4%)

Source: Midlothian Council Balanced Scorecard Year Report 2025/26

21. The council has incorporated 33 Local Government Benchmarking Framework (LGBF) indicators into its suite of performance indicators, with a breakdown of progress outlined in Exhibit 2 (page 10). For these indicators, the number ranked in the top quartile has fallen and remained unchanged for the number ranked in the bottom quartile. Indicators performing better than the national average have declined, while indicators performing better than the family group average show a small increase.

Exhibit 2.

Summary of progress on LGBF indicators incorporated into the Midlothian Council's PIs between LGBF base year and most recent year

Measure	Percentage (no. of indicators) in LGBF base year	Percentage (no. of indicators) in most recent year
Ranked in top quartile	48.5% (16)	24.2% (8)
Ranked in bottom quartile	21.2% (7)	21.2% (7)
Better than national average	54.5% (18)	48.5% (16)
Better than family group average	48.5% (16)	51.5% (17)

Note: Base year varies per indicator.

Source: LGBF dashboard – 23 September 2026

LGBF performance

22. Exhibit 3 (page 11) provides an overview of changes in all LGBF indicators, as of September 2026, for Midlothian alongside the averages for all Scottish councils. This shows a level of improvement in performance slightly below the national average. Of the 107 LGBF indicators, 58 (54 per cent) have improved since the base year, six (six per cent) have remained the same, and 43 (40 per cent) have deteriorated.

23. The service areas with the highest proportion of indicators improving since base year were tackling climate change (80 per cent), children's services (75 per cent) and corporate services, environmental services and financial sustainability (all at 50 per cent). In contrast, the areas with the highest proportion of indicators declining were housing services (80 per cent), adult social work services (64 per cent) and culture and leisure services (57 per cent).

24. Performance against LGBF indicators in comparison to other councils has improved overall. Performance has strengthened for satisfaction and performance indicators but weakened for cost indicators. Fifty per cent of indicators were in the top two quartiles in the most recently published data, compared to 45 per cent in the base year. Nationally, the council ranks 18 of 32 councils for indicators in the top two quartiles, performing below the area-based family group average and above the population-based family group average for this measure.

Exhibit 3.

Midlothian Council – LGBF indicator summary September 2026

Council movements are shown alongside Scotland averages in brackets.

	Cost indicators %	Performance indicators %	Satisfaction indicators %	All indicators %
Movement in last year				
Improved	42 (54)	46 (47)	18 (36)	43 (42)
Stayed the same	11 (9)	24 (22)	9 (9)	20 (18)
Declined	47 (37)	29 (31)	73 (55)	37 (35)
Movement since base year				
Improved	42 (54)	64 (65)	9 (8)	54 (57)
Stayed the same	5 (1)	5 (6)	9 (3)	6 (5)
Declined	53 (44)	31 (29)	82 (90)	40 (38)
Indicators in the top two quartiles				
Most recent year	47	55	27	50
Base year	63	45	18	45

Note: Scotland average movements are shown in brackets.

Source: LGBF as of 23 September 2026

Workforce planning

25. The 2023/24 Best Value thematic review focused on workforce innovation. The council has made good progress in implementing the majority of the recommendations.

Workforce strategy and plans

26. In December 2024, the council approved a ten-year Workforce Strategy 2024–2034. This strategy was published after the Best Value thematic review on workforce; therefore, this has not been subject to detailed audit work. The strategy is accompanied by a short-term three-year action plan which will be refreshed when the strategy is reviewed in late 2026, alongside a performance report on the delivery of the strategy to date. The council plans to assess performance against success criteria set out in the strategy as well as re-examining the strategic context and workforce demand and supply.

27. One of the key themes of the council's Transformation Blueprint is the creation of a 21st century workplace. This theme focuses on digital transformation and human resource management to automate a wide range of tasks to free-up staff resources.

Flexible working and innovation

28. The council has organisational policies and practices in place to support flexible and family working which were developed collaboratively with workers and these are regularly reviewed. Supportive policies for staff include a carers policy, family leave policy and mental health and wellbeing policy.

29. The council's Hybrid Working Policy was approved in 2023 following extensive staff and Trade Union consultation. Hybrid working provides flexibility for staff and is promoted by the council as a non-financial benefit for employees. It is worth noting that most of the council's workforce are front facing but for those who have a role that can be delivered in a hybrid way, the council recommends and supports this way of working.

30. Following the 2023/24 thematic review recommendation to assess the organisational impact of hybrid and flexible working, the council explored options for a formal assessment but continues to rely on informal analysis. This knowledge is used to help inform, for example, options for estate planning.

Developing future skills

31. The transformation review in 2024/25 outlines that the council has worked with education providers to develop a programme of entry level apprenticeships across key professional groups to enable the council to grow its own workforce. For example, since 2024 it has successfully recruited two food safety officers from this programme and one modern apprentice in Regulatory Services to mitigate against a national shortage of qualified environmental health officers and food safety officers. The council has also introduced staff development conversations which link to workforce succession plans.

Monitoring and impact

32. The council has an outstanding recommendation from the workforce thematic review, to ensure that organisational and service level workforce strategies are supported by appropriate performance management information, including quantifiable metrics. Auditors reported in 2025/26 that this is due to be implemented by the end of December 2026 and include a performance report and completion of a strategy review.

33. The council does monitor a range of workforce data, for example sickness absence, staff turnover and workforce demographics as part of its performance reporting to Cabinet and the Performance, Review and Scrutiny Committee.

34. Additionally, the council is progressing a new approach to staff engagement to allow the council to gauge how staff are feeling about new workforce policies and initiatives. The new approach is due to be presented to Corporate Management Team in early 2027. Plans include a new staff survey, group sessions and other engagement methods.

Transformation

Strategy and planning

35. The council has clear objectives for transformation within its Transformation Blueprint, which it introduced in 2023. The Transformation Blueprint aligns with its MTFS and the Single Midlothian Plan.

36. The Transformation Blueprint is structured around five key themes. These are: follow the money; 21st century workforce; workplaces for the future; income generation and commercialisation; and multi-agency transformation. Each of the themes within the Blueprint has an elected member sponsor, promoting elected member oversight, and each includes a series of short projects called sprints.

Programme management and delivery

37. The council has effective governance arrangements in place to oversee the delivery of the Transformation Blueprint. This includes robust officer-led governance through the Business Transformation Board (BTB) and elected member oversight through the Business Transformation Steering Group (BTSG).

38. The council has developed a Transformation Blueprint dashboard which is used for reporting progress. This includes key risks as well as RAG status for the Blueprint as a whole and for individual projects. In the transformation Best Value review, there was a recommendation that the council should finalise its plans for its identified priority transformation projects, outlining savings to be achieved, costs and anticipated financial and non-financial benefits, the 2025/26 Annual Audit Report notes that this has now been implemented.

39. The council has used its Transformation Fund to maintain a Project Management Office (PMO) for a three-year period to October 2026 to support the implementation of the Transformation Blueprint. Decisions related to transformation resourcing will be progressed as part of the development of the next phase of the council's transformation programme and budget-setting for 2027/28.

40. At the time of the 2024/25 transformation review, 24 projects were being monitored through the Transformation Blueprint, two of which were complete and 13 at the business case stage. The council identified five priority projects for 2025/26 and was developing plans to support these. Projects included 52-week provision of early learning and childcare, a one-stop shop pilot in Gorebridge, commercial opportunities at Vogrie Country Park and out of school childcare provision.

Partnership working and joint funding

41. The council has a strong track record of working well with partners to deliver transformation in Midlothian. Under one of the Transformation Blueprints themes – multi-agency transformation – the council established a board with its partners, the Multi-Agency Transformation Management Group with an aim to deliver whole system change. Partners which are represented on the group include NHS Lothian, Police Scotland, Scottish Fire and Rescue Service, University of Edinburgh, Edinburgh College, Scottish Ambulance Service and East Lothian Council.

42. The council worked with NHS Lothian and third sector partners through the health and social care partnership to develop the No.11 Recovery Hub to provide shared care for recovery and services which focus on early intervention and prevention, mental health, substance misuse and justice services for adults.

43. Auditors reported that the council has secured funding opportunities with the Scottish Government and private sector partners to support joint ventures. This included a joint venture with a private energy firm, for district heating networks and other low-carbon energy projects in Shawfair known as Midlothian Energy Limited (MEL). The council provided a £1.6 million in shareholder equity injection into MEL and a further £8.6 million for the project to proceed. This funding has been matched by the partner energy company. MEL has also benefited from £7.3 million of funding through the Scottish Government's Low Carbon Transition Programme.

Impact and monitoring

44. The council reports the impact of its transformation activity and uses feedback to inform projects. Examples of projects include **Equipped for Learning** and **No.11 Recovery Hub** projects. The council took on board survey results from staff, families and pupils to help inform the Equipped for Learning Digital Strategy 2024 and subsequently for setting the priorities for the programme moving forward. It has provided a range of data on the outputs and outcomes generated through the No.11 Recovery Hub. For example, the council reported that 107 people engaged in ongoing support through the Midlothian Young Peoples' Advice Service, of which 47 reported a reduction in substance use and 11 reported becoming drug-alcohol free.

45. In the 2025/26 Annual Audit Report, auditors reported that the council had implemented the Best Value thematic review recommendation to consistently document how it will mitigate potential negative impacts from transformation proposals in its integrated impact assessments. Project managers all undergo integrated impact assessment training when they begin employment and are made aware of obligations to ensure integrated impact assessments are carried out on projects where required.



Equipped for Learning is a five-year project (2021–26) aims to equip learners with digital skills for learning, life and work.

No.11 Recovery Hub – the council has worked with NHS Lothian and third sectors partners through the health and social care partnership to develop the No.11 Recovery Hub. This provides shared care for recovery and services which focus on early intervention and prevention.

Asset management

46. The 2025/26 Best Value thematic topic was asset management. The focus of the work was how councils are managing assets to achieve their corporate objectives and respond to challenges around financial sustainability and climate change.

Asset management planning

47. The council's strategic approach to asset management is captured across a number of strategies, including its Learning Estate Strategy, Capital Investment Strategy 2018–28, Transformation Blueprint 2023–28 and, more recently, the Property and Estates Asset Management Plan.

48. The council does not yet have an overarching asset management strategy, creating a risk that asset-related decision-making may be fragmented. It is currently preparing a Corporate Asset Management Strategy, scheduled for implementation in May 2027.

Governance and performance

49. The council has clear governance arrangements for monitoring progress with its capital programme and asset management plans through the Capital Plan and Asset Management Boards and programme boards. There are also clear governance arrangements in place for elected members to scrutinise progress with the capital plan.

50. The council's performance reporting on assets is fragmented. Performance is mainly reported through quarterly Place Directorate reports and annual balanced scorecard indicators, creating an opportunity for more cohesive reporting on asset management performance. This would support clearer assessment of impacts on the capital programme and service delivery.

Partnership working and community engagement

51. The Midlothian Multi-Agency Transformation Management Group is being used as a forum to progress plans for sharing assets across public sector organisations within the wider Lothian region. Discussions are still at a relatively early stage.

52. The council have provided examples where it is working collaboratively with a range of public, private and third sector partners to maximise the use and impact of its assets. Examples include joint initiatives to deliver low-carbon energy infrastructure to homes, shared health and recovery services, new education facilities in Shawfair, and the redevelopment of Midlothian House as a co-located hub for public and third sector services.

53. The council's Asset Management Plan states that public consultation with local residents and the wider community will take place whenever proposals affect service delivery.

54. The council can demonstrate how it has used feedback received through community engagement to inform its decisions on various projects such as the Gorebridge Hub, Mayfield Learning Community Campus and Midlothian House. Previous budget engagement exercises have shown strong community support for retaining leisure and library services and informed the council's February 2026 decision to create the Gorebridge Hub by relocating the library to Gorebridge Leisure Centre. Another example includes feedback from drop-in sessions relating to the ground floor layout of Midlothian House, with the council reporting changes to the original layout following engagement.

Financial management and sustainability

55. Overall, the council has appropriate and effective budget-setting and financial management arrangements (Exhibit 4, page 17). While the council has demonstrated effective in-year financial management and budgetary control arrangements, the scale of the projected funding gap highlights the importance of timely decision-making and delivery of planned savings and transformation measures. It is essential that officers and elected members work together to accelerate the pace of delivery and scale of transformation activity if the council is to achieve financial sustainability.

Financial sustainability

56. The council continues to operate within a challenging financial environment, with funding pressures affecting the wider public sector. With Scotland's fastest-growing population over the medium term, Midlothian also faces significant additional demand-led cost pressures. Notably within the growing population are increasing proportions of ages 0 to 15 years and over 75s which are contributing to the substantial increased demand for education, social care and related services.

57. The council's latest medium-term financial forecasts identify an underlying funding gap of £15.3 million in 2027/28, increasing to £25.9 million by 2028/29. After taking account of planned council tax increases and the planned use of reserves, a residual funding gap of £6.2 million remains in 2027/28, rising to £14.9 million by 2028/29.

58. The council has established a Transformation Blueprint and consulted on savings proposals as part of its financial planning arrangements. The level of savings and transformation benefits achieved to date is modest compared with the scale of the projected funding gap. The council will therefore need to accelerate the pace and scale of transformation activity if it is to achieve long-term financial sustainability.

Financial management

59. The council reported an unplanned net overspend of £1 million in 2025/26 which was funded through additional utilisation of reserves. The most significant service overspends related to external residential

Exhibit 4.
Midlothian Council – key financial information

Budget-setting	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)	2026/27 (£m)
Budget gap	7.8	5.5	7.3	9.3
Additional funding approved as part of budget setting:	0.1	3.5	5.8	2.7
Total base budget gap	7.9	9.0	13.1	12.0
Planned to be met via:				
• Approved savings measures	3.6	2.0	2.0	0.6
• Utilisation/(Enhancement) of reserves	1.0	6.8	4.1	4.1
• Council tax increase	3.0	0.0	6.6	6.7
• Council tax on second homes	0.1	0.1	0.0	0.0
• Council tax on unoccupied dwellings				0.2
• Fees and charges	0.2	0.1	0.4	0.4
Total funding of base budget gap	7.9	9.0	13.1	12.0
Actual				
Savings delivered (relative to value agreed in setting the budget)	3.4	1.7	1.2	N/A
Actual in-year utilisation of reserves	9.1	19.8	7.6	N/A

Source: Midlothian Council audited annual accounts and budget documents

placements for children (£1.9 million), pupil transport (£1.1 million), maternity cover and temporary staffing within schools (£0.6 million), increased insurance claims (£0.7 million), and higher waste disposal costs (£0.5 million). These pressures were partly offset by favourable variances, including a £3.8 million underspend on loan charges, additional income from the Alpine Coaster (£1 million), and lower-than-budgeted costs across learning settings for children and young people (£0.7 million).

60. During 2024/25, in response to financial pressures, the chief executive introduced a moratorium on non-business critical expenditure. This was extended into 2025/26, alongside strengthened and formal scrutiny arrangements to monitor directors' progress in delivering required recovery actions. In light of continuing financial pressures, the moratorium, supported by these oversight arrangements, has also been carried forward into the 2026/27 financial year and strengthened further.

IJB financial pressure

61. In 2025/26, Midlothian Integration Joint Board (MIJB) spend on adult social care services exceeded the agreed budget of £71.7 million by £2.8 million. In accordance with the Integration Scheme, a further allocation of £2.8 million was provided by the council to address the shortfall, in the absence of usable IJB reserves, contributing to the council's overall overspend of £1 million.

62. For 2026/27, the council approved a £75.122 million funding package for the MIJB. This is an increase of more than £3.6 million on the previous year. There is again a significant risk of overspend on adult social care in 2026/27. Current projections show an unplanned overspend of £3 million.

Savings

63. The council has found it increasingly challenging to deliver its agreed savings targets over the past three years. While 94 per cent of the target was achieved in 2023/24, this fell to 60 per cent in 2025/26, leading to a growing reliance on reserves to balance the budget. In 2025/26, the council delivered £1.2 million of savings against a £2.0 million target. Approved savings measures have reduced significantly to £0.6 million for 2026/27.

64. The level of savings and transformation benefits achieved to date is modest compared with the scale of the projected funding gap. The council will therefore need to accelerate the pace and scale of transformation activity if it is to achieve long-term financial sustainability.

Reserves

65. Auditors concluded that the council has relied on reserves and one-off measures, including **service concession flexibilities**, to manage financial pressures in recent years. In 2025/26, the General Fund balance decreased to £24.4 million, of which £17.8 million is earmarked. This is leaving a non-earmarked balance of £6.6 million (2.65 per cent of the 2025/26 budget, £1.4 million above the approved two per cent minimum level in the council's reserves policy), to mitigate future unplanned overspends. The council's latest financial projections are forecasting an overspend of £4.8 million in 2026/27.



Service concession flexibilities are a temporary accounting change that allowed councils to spread the cost of certain long-term contracts over a longer period.

Capital programme and investment

66. Capital expenditure in 2025/26 totalled £99.8 million. General services capital expenditure accounted for £52.66 million of this total, with £47.10 million capital expenditure in 2025/26 relating to investment in the housing revenue account (HRA). The general services capital spend of £52.66 million was against an original budget of £61.25 million, which was subsequently revised to £53.53 million in year. The HRA capital spend of £47.10 million, was against an original budget of £59.99 million, recording an underspend of £0.15 million and a reprofiling of £12.80 million to future years.

67. Auditors reported in the 2025/26 Best Value thematic report on asset management that the council demonstrates a strong commitment to affordability, with the General Services Capital Plan undergoing a prioritisation exercise since 2022. This was in recognition that the full capital plan could not be delivered within its available resources and the need to manage borrowing levels to ensure they remain affordable.

68. The council has incorporated projected borrowing costs for capital investment into its planning assumptions within its MTFS. The council has a low ratio of financing costs to its net revenue stream. This is a prudential indicator which specifies how much of the council's annual revenue budget is spent financing debt. In 2024/25, the council's ratio was 1.6 per cent, which was below the Scottish and family group averages of six per cent and 5.2 per cent respectively. This was the second lowest rate in Scotland.

69. The council has well-established governance arrangements in place to monitor delivery of its capital programme. Oversight is provided through the Capital Plan and Asset Management Boards and programme boards. Elected members receive regular updates, providing opportunities to scrutinise progress against the capital plan. Auditors noted the programme is experiencing significant slippage, with inflationary pressures and market conditions contributing to increased development costs and delivery challenges.

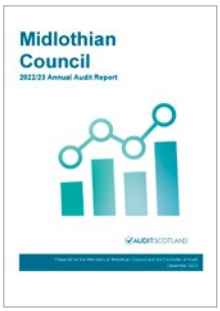
Appendix 1

Annual Audit Reports for 2022/23 to 2025/26

These reports summarise the findings from the 2022/23, 2023/24, 2024/25, and 2025/26 annual audits of Midlothian Council.

Each Annual Audit Report comprises:

- significant matters arising from the audit of the council's Annual Accounts
- conclusions on the council's performance in meeting its Best Value duties
- conclusions on the following wider scope areas that frame public audit as set out in the Code of Audit Practice 2021:
  - Financial management
  - Financial sustainability
  - Vision, leadership and governance
  - Use of resources to improve outcomes.



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Appendix 2

Best Value Statutory Guidance

The Local Government in Scotland Act 2003 introduced a statutory framework for Best Value for local authorities. The Best Value duties set out in the Act are:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost); and, in making those arrangements and securing that balance, to have regard to economy, efficiency, effectiveness, the equal opportunities requirement and to contribute to the achievement of sustainable development
- to achieve break-even trading accounts, subject to mandatory disclosure
- to observe proper accounting practices
- to make arrangements for the reporting to the public of the outcome of the performance of functions.

Best Value

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