Audit Committee
Tuesday 18 August 2020
Item No: 5.1

***Vogrie Country Park***

# MIDLOTHIAN COUNCIL UNAUDITED FINANCIAL STATEMENTS

## 2019/20

Midlothian

*www.midlothian.gov.uk*

Midlothian

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## Management Commentary

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

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

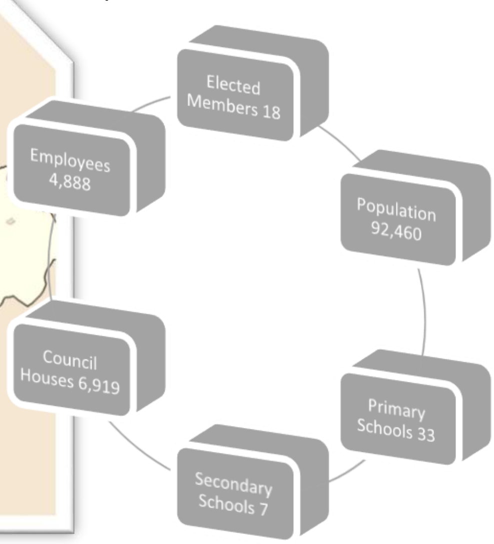
In the first quarter of 2020 a coronavirus outbreak (COVID-19) activated across the globe. This resulted in United kingdom and Scottish Governments imposing restrictions through guidance and law on the movement of people which came into full effect on 23 March 2020. The impact has led to a "shutdown"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

The Annual Accounts are prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom* and are, by necessity, technical in places. The impact of the COVID-19 outbreak was considered by CIPFA-LASAAC in respect of any adjustments required to the Code and it was concluded that full application of the published 2019/20 Code would continue to apply. In line with the UK's Financial Conduct Authority, Scottish Minister's advised that, under provisions made in the Coronavirus (Scotland) Act 2020, each authority may determine its date of publishing the Annual Accounts up to the 30 November 2020 – an extension of 2 months on the previously stipulated deadline. The Council considered this but determined that it wished to continue to work as closely as possible to the previously planned timetable authorising the Accounts for issue by 30 June 2020. It has however recognised that there are concerns about the valuation of assets arising from the RICS guidance that may lead to a modified audit opinion https://www.rics.org.uk/upholding-professional-standards/valuation/valuation-coronavirus .

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

## Midlothian

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


## Key Priorities and Objectives

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

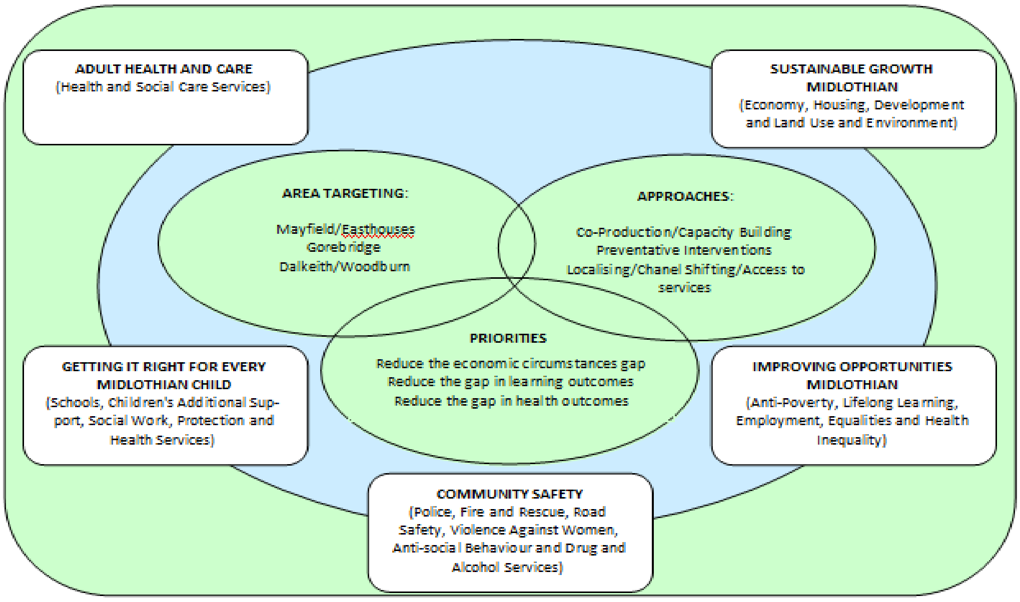
**"Midlothian – A Great Place to Grow"**

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

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

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

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




The annual Balance Scorecard measures progress towards these outcomes and is used to demonstrate ongoing improvements and reflect the ongoing challenges within Midlothian. The full detail behind the performance indicators measured by the balance scorecard for 2019/20 can be found on the Council's website.

https://www.midlothian.gov.uk/downloads/file/3835/balanced_scorecard_half_yearly_2019-20

**Key Achievements and Highlights for 2019/20**

*Edinburgh and South East of Scotland City Deal*

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

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

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

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

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

*Newbattle High School – Scottish Education Award Winners*


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

*Council Houses Built*

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

**Financial Performance for 2019/20**

The Council's financial performance is presented in the Comprehensive Income and Expenditure Statement, provided on page 33. This statement has been prepared using the International Financial Reporting Standards. To show the net position of the Council, it is necessary to adjust the Comprehensive Income and Expenditure Statement for statutory items that require to be taken into account in determining the position of the General Fund and Housing Revenue Account for the year. These are summarised in the Movement in Reserves Statement provided on page 34.

An Expenditure and Funding analysis has been provided to reconcile adjustments between the Council's financial performance under the funding position and the surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement. The Expenditure and Funding Analysis can be found on page 37 and the Expenditure and Income Analysed by Nature in Note 12.

**a) General Fund Performance**

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

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

| | Midlothian Council Budget Monitoring | | | Building the Expenditure and Funding Analysis | | |
|---|---|---|---|---|---|---|
| **Service Area** | **Budget** | **Net Expenditure** | **(Under)/ Overspend** | **Budget Monitoring Net Expenditure** | **Adjustments for Internal Reporting Purposes** | **Net Expenditure chargeable to the General Fund and HRA Balances** |
| | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| Management | 2,000 | 2,009 | 9 | 2,009 | (48) | 1,961 |
| Children's Services | 15,971 | 15,139 | (832) | 15,139 | 0 | 15,139 |
| Communities and Economy | 1,793 | 1,249 | (544) | 1,249 | 592 | 1,841 |
| Education | 93,249 | 93,249 | 0 | 93,249 | (9,575) | 83,674 |
| Adult Social Care - Delegated | 42,593 | 42,593 | 0 | 42,593 | 0 | 42,593 |
| Adult Social Care - Non Delegated | 690 | 593 | (97) | 593 | 0 | 593 |
| Customer & Housing Services | 10,358 | 10,628 | 270 | 10,628 | (6,717) | 3,911 |
| Commercial Services | 13,183 | 13,307 | 124 | 13,307 | (1,244) | 12,063 |
| Finance and Integrated Service Support | 10,313 | 10,320 | 7 | 10,320 | (606) | 9,714 |
| Properties and Facilities Management | 13,610 | 14,848 | 1,238 | 14,848 | (741) | 14,107 |
| Lothian Valuation Joint Board | 534 | 549 | 15 | 549 | 0 | 549 |
| Central Costs | 259 | 346 | 87 | 346 | (1,283) | (937) |
| Non-Distributable Costs | 1,620 | 1,532 | (88) | 1,532 | 0 | 1,532 |
| Housing Revenue Account | 0 | 0 | 0 | 0 | (15,936) | (15,936) |
| Loan Charges | 5,681 | 5,568 | (113) | 5,568 | 20,436 | 26,004 |
| NDR - Discretionary Relief | 70 | 95 | 25 | 95 | (95) | 0 |
| Investment Income | (406) | (52) | 354 | (52) | 52 | 0 |
| Savings Targets | (46) | 0 | 46 | 0 | 0 | 0 |
| Allocations to HRA, Capital Account etc. | (4,954) | (4,949) | 5 | (4,949) | 4,949 | 0 |
| **Net General Fund Expenditure** | **206,518** | **207,024** | **506** | **207,024** | **(10,216)** | **196,808** |
| | | | | | | |
| **Less Funding:** | | | | | | |
| Scottish Government Grant | 160,220 | 160,626 | 406 | 160,626 | (95) | 160,531 |
| Council Tax Income | 50,987 | 51,189 | 202 | 51,189 | (4,810) | 46,379 |
| **Total Funding** | **211,207** | **211,815** | **608** | **211,815** | **(4,905)** | **206,910** |
| | | | | | | |
| **General Fund Utilisation of Reserves** | **4,689** | **4,791** | **102** | **4,791** | **5,311** | **10,102** |

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

- A £2.391 million shortfall in delivering the package of £7.988 million of transformational, operational and service cost reductions and income generation measures approved by Council;
- Costs of £0.436 million incurred in respect of the capital project to construct a new Resource Centre being considered abortive and written off to revenue;
- Running costs in excess of budget associated with design and repairs cost of public buildings of £0.494 million;
- A rescinded dividend of £0.421 million in respect of the Council's shareholding in Lothian Buses which was an early COVID-19 measure taken by the company;
- The impact of strict vacancy control across the council resulting in a £1.783 million underspend against budget;
- Child placements, previously with external agencies, which moved to Midlothian Carers resulting in significant savings of £0.400 million;
- A higher than expected number of Building Warrant and Planning applications yielding income in excess of budget of £0.307 million.

The Council approved the Reserves Strategy in February 2019 setting the minimum level of uncommitted reserve at £3.3 million. The effect of the 2019/20 movement of £4.791 million on the General Fund Reserve balance is demonstrated in the table below with uncommitted reserves £0.748 million in excess of the approved minimum level. Further details are provided in the Movement in Reserves Statement on page 34:

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

The movement in the Earmarked General Fund balance of £4.791 million is outlined in Note 8 on page 57, which reflects the movements attributable to Earmarked Reserves.

**b) General Fund Capital Expenditure**

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

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

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

**c) Housing Revenue Account (HRA) Performance**

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

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

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

**d) Housing Capital Expenditure**

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

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

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

**e) Capital Financing Requirement**

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

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

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

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

**f) Borrowing**

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

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

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

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

**g) Balance Sheet as at 31 March 2020**

The Balance Sheet on page 35 summarises the Councils assets and liabilities as at 31 March 2020. Total net assets increased by £114.227 million from the position at 31 March 2019.

| | 31 March 2020 £000 | 31 March 2019 £000 | Change £000 |
|---|---|---|---|
| Long-term Assets | 909,178 | 791,795 | 117,383 |
| Current Assets | 135,178 | 101,442 | 33,736 |
| Current Liabilities | (92,081) | (91,059) | (1,022) |
| Long-term Liabilities | (462,665) | (426,795) | (35,870) |
| **Total** | **489,610** | **375,383** | **114,227** |

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

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

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

The provision for non-collection of debt at 31 March 2019 was £37.707 million (2018/19 £35.782 million). There were a number of immaterial write offs approved by Cabinet during the year.

**h) Pension**

The net pension liability of the Council as at 31 March 2020 was calculated in accordance with the requirements of *International Accounting Standard 19 (IAS 19)* and amounts to £102.492 million, which is a decrease of £21.867 million from 31 March 2019. The main reason for this is a higher net discount rate compared to the 2018/19 valuation, which places a lower value on benefits due to be paid in the future.

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

**Financial Outlook**

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

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

The impact of the unprecedented position the world finds itself in means that, in predicting what the financial impact will be on Midlothian Council, assumptions have to be made where there is no empirical evidence to rely on. The major impacts on the Council's finances are anticipated to be caused by:

- Reduced income steams;
- Increased costs incurred in response to the pandemic;
- A delay in delivering measures approved in the Medium Term Financial Strategy with, in some areas, a re-think being required;
- National Government Guidance; and
- Other, as yet unknown, factors.

Finance officers will continue to contribute to the COSLA data gathering exercise, which will in turn be used to inform Elected Members and the Council's Management Team of the emerging picture for Midlothian. With on-going assessment and scenario planning of the impact of the COVID-19 outbreak the Council plans to put strong measures in place to continue to exhibit strong financial management of its financial affairs and evidence its ability to continue as a going concern.

The General Service Capital Plan for future years will see further major investment in school infrastructure including a new primary school and community hub at Danderhall and a new denominational and non-denominational joint campus primary school at Hopefield. Early Years Expansion plans are expected to be fully implemented over this period across a number of current and new primary school facilities in the county. There will also be capital investment to complement the new Design, Build, Finance and Maintain (DBFM) projects for the Newbattle Centre and Zero Waste Residual Treatment Facility. In addition, there will be continued investment in the roads and street lighting infrastructure and ongoing asset management replacement plans for buildings, fleet and digital assets.

**Key Risks**

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

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

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

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

Impact of COVID-19

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

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

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

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

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

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

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

**Emerging Issues, Service Changes and Future Developments**

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

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

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

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

**Conclusion**

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

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

**Acknowledgements**

I would like to acknowledge the significant effort in producing the Financial Statements and express my thanks to my own team and to colleagues throughout the Council for the significant dedication and commitment shown throughout the year in financial matters.

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**Signed: Gary Fairley**

**Chief Officer, Corporate Solutions**

**Date:** 30 June 2020

# Statement of Responsibilities

**The Council's Responsibilities**

The Council is required to:

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

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**Signed: Councillor Derek Milligan**

**Date:**

**The Chief Officer, Corporate Solutions Responsibilities**

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

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

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

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

______________________

**Signed: Gary Fairley**

**Chief Officer, Corporate Solutions**

**Date:**

## Annual Governance Statement

**Introduction**

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2020, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

**Scope of Responsibility**

Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement and performance, while maintaining an appropriate balance between quality and cost; and in making these arrangements and securing that balance, to have regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of Midlothian Council's affairs and facilitating the exercise of its functions in a timely, inclusive, open, honest and accountable manner. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

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

**Framework for Good Governance**

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement;

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

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

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

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

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

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

**The Council's Governance Framework**

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

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

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in standing orders and scheme of delegation for officers, scheme of administration, and financial regulations.

Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity.

The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. The Standards Committee is responsible for dealing with matters relating to conduct and ethical standards.

The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

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

**B. Ensuring openness and comprehensive stakeholder engagement**

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

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

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users, including the Council's 'Shaping Our Future' plans, using a range of consultation and engagement methods adopted across Services.

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

The Council's vision, strategic objectives and priorities are set out in the Single Midlothian Plan developed through the Community Planning Partnership (of which the Council is a partner). The Council Change and Transformation programme and individual Service Plans outline how Midlothian Council will deliver its contribution to the Single Midlothian Plan.

Asset management planning (which is being developed) and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision. The Council fully supports community empowerment and recognises the importance of building community capacity and volunteering as a key factor in building stronger, safer, and supportive communities.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

A Medium Term Financial Strategy has been developed and approved by Council, and plans for revenue (5-year) and capital (10-year) based on strategic priorities are developed, led by the Corporate Management Team, and approved by Council in February each 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 2019/20. This is based on work carried out by an in-house and shared services team in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

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

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

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

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

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

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

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

**Improvement Areas of Governance**

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

The Council at its meeting on 20 August 2019 approved the "Best Value Assurance Report: Midlothian Council Action Plan", following its consideration by the Corporate Management Team on 17 July 2019, to address the recommendations (1-8 below) in order to demonstrate Best Value. Progress has been made on improvement actions though these are not yet fully implemented:

1) As a matter of urgency, officers and elected members work together to develop and agree the medium term financial strategy and progress the council's transformation plans.
2) Develop and sustain more constructive relationships between members and between members and officers. Implement effective cross party governance arrangements to ensure that it delivers the medium term financial strategy and transformation plans.
3) Ensure that workforce planning reflects the medium term financial strategy
4) Undertake a review of its capital programme, to ensure that the timeframes for delivery are achieved going forward and that monitoring and reporting mechanisms are enhanced to drive more accurate analysis and planning around capital work.
5) Continue to implement financial planning arrangements to address budget gaps, underpinned by robust financial budgeting and monitoring arrangements.
6) Refine its vision in light of the outcome of consultation work through the Services with Communities transformation workstream and to ensure that it focuses its activity most effectively.
7) Ensure elected members exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities.
8) Continue to build on positive elements of community empowerment: Increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress.

In addition, other improvement actions (9-12 below) have been agreed during the year that are not specifically covered by the above in order to enhance compliance with the Council's Local Code of Corporate Governance:

9) Strengthen resource capacity and skills in the Procurement function to better support Service Managers to comply with the Council's procurement strategy and procedures, and to undertake contract monitoring to demonstrate delivery of value for money.
10) Enhance the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
11) Review and update the Financial Regulations and policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations to reflect changes arising from organisation structures and systems.
12) Provide ongoing leadership training for officers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.

These actions to enhance the governance arrangements in 2020/21 will be driven and monitored by the Corporate Management Team on a regular basis in order to inform the next annual review. Internal Audit work planned in 2020/21 is designed to test improvements and compliance.

**Conclusion and Opinion on Assurance**

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

**Covid-19 Response**

The above assurance opinion reflects the assessment of governance in place during normal operations in 2019/20 prior to the significant Covid-19 pandemic response in late March 2020. The latter clearly had an impact on business as usual in the delivery of services. The Council moved to Critical Service delivery at 15.30 on Friday 20 March 2020. This means that as a Category 1 responder the Council carries out the following three essential functions: Caring for the Vulnerable; Liaising with Resilience Partners; and Supporting Economic Recovery.

The Council's Standing Order 19.2, i.e. decision-making responsibility delegated to the Chief Executive in consultation with the Leader, was utilised on a temporary basis during the Covid-19 pandemic incident as a more agile way of decision-making for urgent decisions within its governance arrangements. All formal Council and Committee meetings had been cancelled for an indefinite period, thus ensuring the safety of officers, elected members and the community.

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

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

Initial work is underway on assessing the financial impact on the Council and the longer term disruption and consequences arising from the Covid-19 pandemic. The Council will, at the appropriate time, carry out a Covid-19 pandemic response formal review, highlight any lessons learned, and implement associated improvements. It should be noted that a reflective approach has been applied to improve practices during the response phase on a continuous basis.

________________________ ________________________

Derek Milligan

Leader of the Council

Date:

Dr Grace Vickers

Chief Executive

Date:

# Remuneration Report

**Introduction**

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

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

**Remuneration of Councillors**

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

The Regulations permit the Council to remunerate one Leader of the Council and one Provost. For 2019/20 the Regulations set the salary for the Leader as £29,119 (2018/19 £28,326) and the maximum salary for the Provost as £21,840 (2018/19 £21,245).

The Regulations also set out the remuneration that may be paid to Senior Councillors and total number of Senior Councillors the Council may have. The maximum yearly amount that may be paid to a Senior Councillor is 75% of the total yearly amount payable to the Leader of the Council. For 2019/20, the maximum salary which could be paid to a Senior Councillor was £21,840 (2018/19 £21,245) with the maximum number of Senior Councillors set at eight (excluding the Provost and the Leader). The total remuneration for Senior Councillors should not exceed £157,237 (2018/19 £152,942). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within those maximum limits.

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

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

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

*Remuneration of Council Leader, Provost and Senior Councillors*

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

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

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

**Remuneration of Employees**

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

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

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

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

*Remuneration of Senior Employee's*

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

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

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

3 - Remuneration reflects flexible retirement during the year;

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

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

## Pension Entitlement

Pension benefits for Councillors and local government employees are provided through the Local Government Pension Scheme (LGPS), which is administered by the Lothian Pension Fund. From 1 April 2015, this became a career average salary pension scheme, although it was a final salary scheme until that date. This means that pension benefits are based on an average of the pay over the number of years that a person has been a member of the scheme.

From 1 April 2009, a five-tier contribution system is in place with contributions from scheme members based on how much pay falls into each tier. This is designed to give more equality between costs and benefits of scheme membership. Part-time workers contribution rates are worked out on the whole time pay rate for the job, with actual contributions paid on actual pay earned.

The tiers and contribution rates are as follows:

| Pensionable Pay 2019/20 | Contribution Rate |
|---|---|
| On earnings up to and including £21,800 | 5.5% |
| On earnings above £21,801 and up to £26,700 | 7.25% |
| On earnings above £26,701 and up to £36,600 | 8.5% |
| On earnings above £36,601 and up to £48,800 | 9.5% |
| On earnings above £48,801 | 12% |

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

| | Pension Benefit | | |
|---|---|---|---|
| Time Period | Accrual Basis | Accrual Rate | Lump Sum Basis |
| From 1 April 2015 | Career Average | 1/49th pensionable pay each year | n/a |
| From 1 April 2009 to 31 March 2015 | Final Salary | 1/60th pensionable pay each year | n/a |
| Prior to 1 April 2009 | Final Salary | 1/80th pensionable pay each year | 3/80th final pensionable salary and years of pensionable service |

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

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

*Pension Entitlement for Senior Councillors*

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

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

*Pension Entitlement for Senior Employees*

| Senior Employee | In-Year Pension Contributions Year to 31 March 2020 £ | In-Year Pension Contributions Year to 31 March 2019 £ | Accrued Pension Benefits As at 31 March 2020 Pension £000 | Accrued Pension Benefits As at 31 March 2020 Lump Sum £000 |
|---|---|---|---|---|
| **G Vickers**<br>Chief Executive | 25,480 | 20,751 | 9 | 0 |
| **M Barrow**<br>Joint Director: Health and Social Care (1)<br>(FYE £0) | 0 | 0 | 16 | 41 |
| **A Short**<br>Joint Director: Health and Social Care (1)<br>**(FYE £9,634)** | 4,817 | 6,309 | 21 | 39 |
| **K Anderson**<br>Executive Director: Place (2) | 21,342 | 20,232 | 52 | 100 |
| **J Blair**<br>Director, Resources **(FYE £21,342)** | 1,719 | 10,007 | 50 | 94 |
| **M Smith**<br>Director, Education, Communities & Economy (3) **(FYE £21,342)** | 14,228 | 20,232 | 35 | 45 |
| **F Robertson**<br>Executive Director : Children, Young People & Communities (4) **(FYE £21,342)** | 4,245 | 0 | 6 | 0 |
| **G Fairley**<br>Chief Officer - Corporate Solutions (S95 Officer) (4) | 17,136 | 15,908 | 42 | 78 |
| **J Tranent**<br>Chief Officer: Children's Services, Partnerships and Communities (5) | 17,254 | 0 | 29 | 40 |
| **M Lloyd**<br>Head of Education (Chief Social Work Officer) **(FYE £14,898)** | 6,249 | 9,415 | 0 | 0 |
| **A White**<br>Head of Adult Health and Social Care | 17,254 | 15,908 | 19 | 8 |
| **A Turpie**<br>Legal Services Manager (Monitoring Officer) | 13,103 | 12,167 | 29 | 52 |
| **Total** | **142,827** | **130,929** | **308** | **497** |

1 - Post joint funded 50:50 with NHS Lothian, M Barrow Full Time Equivalent £90,634;
2 - Post previously titled Director Resources (Acting) (Apr 19- Oct 19);
3 - Remuneration reflects flexible retirement during the year;
4- Post previously titled Head of Finance & ISS (Apr 19 - Dec 19);
5 - From August 19 to Jan 20 Post holder undertook duties associated with the post of Head of Education.

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

The McCloud judgement, referenced in the Management Commentary, could potentially have a material impact on the accrued pension benefits figures above. As advised by Lothian Pension Fund the impact is still to be finalised therefore it will only be reflected in the disclosure information in the year the member leaves of retires.

**Remuneration of Other Employees by Pay Bands**

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

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

**Exit Packages**

Termination benefits are amounts payable because of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to Services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or making an offer to encourage voluntary redundancy. The Council is only demonstrably committed to a termination when it has a detailed formal plan for the termination and it is without realistic possibility of withdrawal.

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

Details of the cost to the Council of voluntary redundancy packages for the year are as follows:

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

**Trade Union Facility Time**

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

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

For the reporting year 2019/20, the equivalent of 5.6 FTE employees (across 14 individuals) of paid time facility was made available. The proportion of their working hours spent on facility time is as follows:

| Percentage of time | Number of Employees |
|---|---|
| 1% - 50% | 11 |
| 51% - 99% | 3 |
| 100% | 0 |

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

| | |
|---|---|
| Total cost of facility time | £202,686 |
| Total Pay Bill | £142,912,744 |
| Percentage total | 0.14% |

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

**Derek Milligan**

**Leader of the Council**

**Date:**

**Dr Grace Vickers**

**Chief Executive**

**Date:**

## Independent Auditor’s Report

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

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 2020 is:

Ernst & Young LLP
Atria One
144 Morrison Street
Edinburgh
EH3 8EX

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

## Principal Financial Statements

The Annual Accounts summarise the Council's transactions for the year, its year-end position at 31 March 2020 and its cash flows. The Annual Accounts are prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20* (the Code), which is based on International Financial Reporting Standards(IFRSs). Every effort has been made to use plain language; where technical terms are unavoidable they have been explained in the Glossary.

The four principal statements and their relationships are explained in more detail below:

- **Comprehensive Income and Expenditure Statement** – this shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation or rents. The Council raises taxation and rents to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves statement.

- **Movement in Reserves Statement** - this shows the movement from the start of the year to the end on the different reserves held by the Council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce Council Tax) and other 'Unusable Reserves'. The statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return the amounts chargeable to council tax and rents for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and the Housing Revenue Account Balance Movements (HRA) in the year following these adjustments.

- **Balance Sheet** – this shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the movement in reserves statement line 'adjustments between accounting basis and funding basis under regulations'.

- **Cash Flow Statement** – this shows the change in cash and cash equivalents during the reporting period. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources that are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

# Group and Council Comprehensive Income and Expenditure Statement

| 2018/19 | | | | | 2019/20 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Gross Expenditure | Gross Income | Net Expenditure or (Income) | Group Net Expenditure | | Gross Expenditure | Gross Income | Net Expenditure or (Income) | Group Net Expenditure | |
| £000 | £000 | £000 | £000 | **Service** | £000 | £000 | £000 | £000 | *Notes* |
| 2,033 | (105) | 1,928 | 1,928 | Management | 2,155 | (53) | 2,102 | 2,102 | *12* |
| 16,876 | (634) | 16,242 | 16,242 | Children's Services | 16,558 | (580) | 15,978 | 15,978 | *12* |
| 7,627 | (4,569) | 3,058 | 3,058 | Communities and Economy | 7,075 | (6,489) | 586 | 586 | *12* |
| 102,844 | (7,789) | 95,055 | 95,055 | Education | 113,461 | (12,631) | 100,830 | 100,830 | *12* |
| 103,548 | (61,263) | 42,285 | 42,285 | Adult Social Care | 110,462 | (64,606) | 45,856 | 45,856 | *12* |
| 29,777 | (24,955) | 4,822 | 4,822 | Customer and Housing Services | 28,522 | (24,064) | 4,458 | 4,458 | *12* |
| 26,777 | (4,896) | 21,881 | 21,881 | Commercial Services | 30,790 | (11,532) | 19,256 | 19,256 | *12* |
| 21,287 | (902) | 20,385 | 20,385 | Finance and Integrated Service Support | 12,317 | (1,502) | 10,815 | 10,815 | *12* |
| 35,165 | (16,561) | 18,604 | 18,604 | Properties and Facilities Management | 37,490 | (19,948) | 17,542 | 17,542 | *12* |
| (51,607) | (28,802) | (80,409) | (80,409) | Housing Revenue Account | 5,411 | (29,865) | (24,454) | (24,454) | *12* |
| 523 | 0 | 523 | 523 | Lothian Valuation Joint Board | 549 | 0 | 549 | 549 | *12* |
| (548) | 0 | (548) | (548) | Central Costs | (346) | 0 | (346) | (346) | *12* |
| 1,323 | 0 | 1,323 | 1,326 | Non-Distributable Costs | 1,550 | 0 | 1,550 | 1,551 | *12* |
| **295,625** | **(150,476)** | **145,149** | **145,152** | **Cost of Services** | **365,992** | **(171,270)** | **194,722** | **194,723** | |
| | | 0 | (1,435) | Share of operating results of associates | | | 0 | (286) | |
| | | 1,463 | 1,463 | Other Operating (Income) or Expenditure | | | 724 | 724 | *9* |
| | | 16,010 | 16,010 | Financing and Investment Income and Expenditure | | | 17,232 | 17,232 | *10* |
| | | (222,170) | (222,170) | Taxation and Non-Specific Grant Income | | | (241,716) | (241,716) | *11* |
| | | **(59,548)** | **(60,980)** | **(Surplus) or Deficit on Provision of Services** | | | **(29,038)** | **(29,323)** | 12 |
| | | (44,084) | (44,084) | (Surplus) or Deficit on revaluation of Property, Plant and Equipment assets | | | (47,578) | (47,578) | |
| | | 17,287 | 17,287 | Re-measurement of the net defined benefit liability/(asset) | | | (38,124) | (38,124) | |
| | | (184) | (68) | Other (Gains) / Losses | | | 514 | 210 | |
| | | **(26,981)** | **(26,865)** | **Other Comprehensive (Income) and Expenditure** | | | **(85,188)** | **(84,884)** | |
| | | (86,529) | (87,845) | **Total Comprehensive (Income) and Expenditure** | | | (114,226) | (114,815) | |

## Group and Council Movement in Reserves Statement

| | General Fund Reserve | HRA Balance | Capital Fund | Repairs and Renewals Fund | Total Usable Reserves | Total Unusable Reserves | Total Council Reserves | Council's Share of Reserves of Associates, Subsidiaries and Joint Ventures | Total Group Reserves |
|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance at 31 March 2019** | **(8,637)** | **(39,084)** | **(20,169)** | **(2,957)** | **(70,847)** | **(304,539)** | **(375,386)** | **(1,380)** | **(376,766)** |
| Movement between Lothian Valuation Joint Board 2017/18 Unaudited and Audited Accounts | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 105 | **105** |
| **Revised Balance at 31 March 2019** | **(8,637)** | **(39,083)** | **(20,169)** | **(2,957)** | **(70,847)** | **(304,539)** | **(375,386)** | **(1,275)** | **(376,661)** |
| Total Comprehensive Expenditure and Income | (11,156) | (17,882) | 0 | 0 | (29,038) | (85,188) | **(114,226)** | (589) | **(114,815)** |
| Adjustments between accounting basis and funding basis under regulations **(Note 7)** | 5,652 | 12,571 | (5,195) | 0 | 13,028 | (13,028) | **0** | 0 | **0** |
| Transfers to/(from) other statutory reserves | 713 | 0 | 0 | (713) | 0 | 0 | **0** | 0 | **0** |
| **Increase/(Decrease) in year** | **(4,791)** | **(5,311)** | **(5,195)** | **(713)** | **(16,010)** | **(98,216)** | **(114,226)** | **(589)** | **(114,815)** |
| **Balance at 31 March 2020** | **(13,428)** | **(44,395)** | **(25,364)** | **(3,670)** | **(86,857)** | **(402,755)** | **(489,612)** | **(1,864)** | **(491,476)** |

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

## Group and Council Balance Sheet

| 31 March 2019 Midlothian Council | Group | | 31 March 2020 Midlothian Council | Group | |
|---|---|---|---|---|---|
| £000 | £000 | | £000 | £000 | *Notes* |
| 779,364 | 779,364 | Property, Plant and Equipment | 897,018 | 897,020 | *13* |
| 924 | 924 | Intangible Assets | 619 | 619 | *15* |
| 86 | 86 | Heritage Assets | 82 | 82 | *14* |
| 8,424 | 8,424 | Long-term Investments | 7,746 | 7,746 | *17* |
| 0 | 1,335 | Investments share of net assets of associates | 0 | 1,820 | |
| 2,997 | 2,957 | Long-term Debtors | 3,713 | 3,669 | *20* |
| **791,795** | **793,090** | **Long-term Assets** | **909,178** | **910,956** | |
| | | | | | |
| 65,420 | 65,420 | Short-term Investments | 85,370 | 85,370 | *17* |
| 5,543 | 5,543 | Assets held for Sale | 1,371 | 1,370 | *16* |
| 868 | 868 | Inventories | 744 | 744 | *19* |
| 18,931 | 18,982 | Short-term Debtors | 23,012 | 23,063 | *21* |
| 10,680 | 10,680 | Cash and Cash Equivalents | 24,682 | 24,682 | *22* |
| **101,442** | **101,493** | **Current Assets** | **135,179** | **135,229** | |
| | | | | | |
| 20,507 | 20,507 | Short -term Borrowing | 11,441 | 11,441 | *17* |
| 38,751 | 38,716 | Short-term Creditors | 45,876 | 45,840 | *23* |
| 760 | 760 | Provisions | 836 | 836 | *24* |
| 31,041 | 31,041 | Grants Receipts in Advance | 33,927 | 33,927 | *29* |
| **91,059** | **91,024** | **Current Liabilities** | **92,080** | **92,044** | |
| | | | | | |
| 219,605 | 219,605 | Long-term Borrowing | 260,427 | 260,427 | *17* |
| 207,190 | 207,190 | Other Long -term Liabilities | 202,238 | 202,238 | *25* |
| **426,795** | **426,795** | **Long-term Liabilities** | **462,665** | **462,665** | |
| | | | | | |
| **375,383** | **376,764** | **Net Assets** | **489,612** | **491,476** | |
| | | | | | |
| 70,844 | 72,911 | Usable Reserves | 86,857 | 89,292 | *26* |
| 304,539 | 303,853 | Unusable Reserves | 402,757 | 402,182 | *27* |
| **375,383** | **376,764** | **Total Reserves** | **489,612** | **491,476** | |

The unaudited accounts were authorised for issue on 30 June 2020.

I certify that the Balance Sheet presents a true and fair view of the financial position of the Council at 31 March 2020, and its income and expenditure for the year ended 31 March 2020.

**Gary Fairley (FCCA)**

**Chief Officer Corporate Solutions**

**Date:** 30 06 2020

## Cash Flow Statement

| 2018/19 £000 | | 2019/20 £000 | £000 |
|---|---|---|---|
| **59,548** | **Net (Surplus) or Deficit on the Provision of Services** | | **29,038** |
| | **Adjustments to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements** | | |
| 30,139 | Depreciation | 33,071 | |
| (74,219) | Impairment and downward revaluations | (20,755) | |
| 232 | Amortisation | 316 | |
| (339) | (Increase)/decrease in debtors | (2,473) | |
| (981) | Increase/(decrease) in creditors | (727) | |
| 13 | (Increase)/decrease in inventories | 125 | |
| 21,559 | Movement in pension liability | 16,257 | |
| 1,944 | Carrying amount of non-current assets sold or derecognised | 4,632 | |
| (505) | Other non-cash items charged to the net surplus or deficit on the provision of services | 68 | |
| **(22,157)** | | | **30,514** |
| | **Adjust for Items included in the Net Surplus or Deficit that are Investing and Financing Activities** | | |
| 64,985 | Proceeds from short-term and long-term investments | 64,985 | |
| (482) | Sale of property, plant and equipment, investment property and intangible assets | (3,914) | |
| (24,561) | Any other items for which the cash effects are investing or financing cash flows | (36,557) | |
| **39,943** | | | **24,514** |
| **77,334** | **Net Cash Flow from Operating Activities** | | **84,066** |
| | **Investing Activities** | | |
| (34,575) | Purchase of property, plant and equipment, investment property and intangible assets | (56,045) | |
| (64,985) | Purchase of short-term and long-term investments | (84,985) | |
| (1,950) | Other payments for investing activities | (551) | |
| 1,302 | Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 3,914 | |
| 30,472 | Other receipts from investing activities | 38,932 | |
| **(69,735)** | | | **(98,735)** |
| | **Financing Activities** | | |
| 92,980 | Cash receipts of short- and long-term borrowing | 76,500 | |
| (2,052) | Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance-sheet PFI contracts | (3,128) | |
| (96,732) | Repayments of short- and long-term borrowing | (44,701) | |
| **(5,805)** | | | **28,671** |
| **1,794** | **Net (Increase)/Decrease in Cash and Cash Equivalents** | | **14,002** |
| 8,886 | Cash and Cash Equivalents at 1 April | | 10,680 |
| **10,680** | **Cash and Cash Equivalents at 31 March** | | **24,682** *Note 22* |

The cash flows for operating activities include the following items:

| 2018/19 | Cash Flow Statement: Interest Paid and Received | 2019/20 |
|---|---|---|
| **£000** | | **£000** |
| 40 | Interest Received | 403 |
| (15,175) | Interest Paid | (16,192) |
| 438 | Dividends Received | 0 |

## Expenditure and Funding Analysis

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

| 2018/19 | | | | 2019/20 | | |
|---|---|---|---|---|---|---|
| Net expenditure chargeable to the General Fund and HRA balances | Adjustments (note 6) | Net expenditure in the CIES (note 12) | Service | Net expenditure chargeable to the General Fund and HRA balances | Adjustments (note 6) | Net expenditure in the CIES (note 12) |
| £000 | £000 | £000 | | £000 | £000 | £000 |
| 1,837 | 91 | 1,928 | Management | 1,962 | 140 | 2,102 |
| 15,686 | 556 | 16,242 | Children's Services | 15,139 | 839 | 15,978 |
| 2,666 | 392 | 3,058 | Communities and Economy | 1,841 | (1,255) | 586 |
| 77,647 | 17,408 | 95,055 | Education | 83,674 | 17,156 | 100,830 |
| 40,355 | 1,930 | 42,285 | Adult Social Care | 43,186 | 2,670 | 45,856 |
| 4,548 | 274 | 4,822 | Customer and Housing Services | 3,911 | 547 | 4,458 |
| 16,646 | 5,235 | 21,881 | Commercial Services | 12,063 | 7,193 | 19,256 |
| 11,036 | 9,349 | 20,385 | Finance and Integrated Service Support | 9,713 | 1,102 | 10,815 |
| 14,668 | 3,936 | 18,604 | Properties and Facilities Management | 14,108 | 3,434 | 17,542 |
| (15,729) | (64,680) | (80,409) | Housing Revenue Account | (15,937) | (8,517) | (24,454) |
| 523 | 0 | 523 | Lothian Valuation Joint Board | 549 | 0 | 549 |
| (652) | 104 | (548) | Central Costs | (937) | 592 | (345) |
| 1,358 | (35) | 1,323 | Non-Distributable Costs | 1,532 | 18 | 1,550 |
| **170,589** | **(25,440)** | **145,149** | **Net Cost of Services** | **170,804** | **23,919** | **194,723** |
| 10,497 | (9,034) | 1,463 | Other Income and Expenditure | 11,913 | (11,189) | 724 |
| 13,448 | 2,562 | 16,010 | Financing and Investment Income and Expenditure | 14,091 | 3,141 | 17,232 |
| (197,613) | (24,557) | (222,170) | Taxation and non-specific grant income | (206,910) | (34,806) | (241,716) |
| **(3,079)** | **(56,469)** | **(59,548)** | **(Surplus) or Deficit** | **(10,102)** | **(18,935)** | **(29,037)** |
| (44,640) | | | Opening General Fund and HRA Balance | (47,720) | | |
| (3,079) | | | Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in year | (10,102) | | |
| **(47,719)** | | | **Closing General Fund and HRA Balance at 31 March*** | **(57,822)** | | |

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

## Notes to the Financial Statements

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

## 1. Statement of Accounting Policies

**General Principles**

The Annual Accounts summaries the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014, which Section 12 of the Local Government Scotland Act 2003 require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the *Code of Practice on Local Authority Accounting in the United Kingdom 2019/20,* supported by International Financial Reporting Standards (IFRS) and the statutory guidance issued under section 12 of the 2003 act.

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

**a) Accruals of Income and Expenditure**

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

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations of the contract;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected;

**b) Cash and Cash Equivalents**

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

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

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

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

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

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

**d) Charges to Revenue for Non-Current Assets**

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement by way of loans fund principal charges. Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the principal repayment when determining the movement in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

**e) Employee Benefits**

***Benefits Payable during Employment***

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

***Termination Benefits***

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

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

***Post-Employment Benefits***

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

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

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

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

***The Local Government Pension Scheme***

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

- The liabilities of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc. and projections of earnings for current employees;

- Liabilities are discounted to their value at current prices;
- The assets of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet at their fair value. Quoted securities at current bid price, unquoted securities at professional estimate, and unitised securities at current bid price and property at market value.

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

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

Remeasurements comprising:

- The return on plan assets – excluding amounts included in net interest on the net defined liability (asset) – charged to the pensions reserve as other comprehensive income and expenditure;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as other comprehensive income and expenditure;
- Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

**f) Events after the Balance Sheet Date**

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

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

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

**g) Financial Instruments**

***Financial Liabilities***

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

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

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

***Financial Assets***

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

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

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

*Financial Assets Measured at Amortised Cost*

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

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

*Expected Credit Loss Model*

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

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

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

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

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

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

*Fair value measurements of financial assets*

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

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

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

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

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

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

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

**h) Government Grants and Contributions**

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

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

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

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

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

**i) Heritage Assets**

A heritage asset is defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Heritage assets are valued at insurance replacement value where available, otherwise assets are held at depreciated historic cost since the cost of obtaining a valuation would outweigh the benefits to users of the financial statements.

**j) Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as result of past events (i.e. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service(s) line in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the CIES.

**k) Interests in Companies and Other Entities**

The Council has an interest in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities. In the Council's own single entity accounts these interests are recorded as the share of net assets.

**l) Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using the First In First Out (FIFO) costing formula.

**m) Allocation of Central Support Services**

Support services will not be recharged although the costs of services provided by the Council will be charged to separate accounts such as the Housing Revenue Account. The costs of support and other services will be allocated in government returns as required.

**n) Property, Plant and Equipment**

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

*Recognition*

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

*Measurement*

Assets are initially measured at cost, comprising:

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

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

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

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

- Council dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH). Gross valuations are reduced by applying the discount factor which is designed to reflect that houses are only available for social use. Any new build housing and newly purchased houses are valued at historic cost;
- Other land and buildings – current value, determined by the amount that would be paid for the asset in its existing use (existing use value – EUV);
- Community and infrastructure assets – depreciated historical cost;
- Vehicles, Plant and Equipment – depreciated historical cost;
- Assets under construction – historical cost;
- Surplus Assets – fair value based on open market value;

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

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

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

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

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

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

*Impairment*

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

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

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

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

*Depreciation*

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

Depreciation is calculated on the following bases:

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

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

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

*Disposals and Non-Current Assets Held for Sale*

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

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

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

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

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

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

**o) Public Private Partnership (PPP)/Not for Profit Distributing Model (NPDM) Contracts**

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

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

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

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

- Fair value of the services received during the year – debited to the relevant service in the CIES;
- Finance Cost – an interest charge on the outstanding Balance Sheet liability debited to the Financing and Investment Income and Expenditure line in the CIES, the interest charges are as follows:
    - Dalkeith Schools 9.69%;
    - Midlothian Primary Schools 7.29%;
    - Newbattle Community Campus 5.06%;
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- Liability repayment – applied to write down the Balance Sheet liability towards the PPP operator (the profile of write-downs is calculated using the same principles as for a finance lease;
- Service charge and lifecycle component replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

**p) Provisions, Contingent Liabilities and Contingent Assets**

***Provisions***

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

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

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

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

***Contingent Liabilities***

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

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

***Contingent Assets***

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

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

**q) Reserves**

Reserves are created by transferring amounts out of the General Fund Balance. When Expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then transferred back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

**r) Revenue Expenditure funded from Capital Under Stature (Refcus)**

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

**s) VAT**

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

**t) Fair Value Measurement of Non-financial Assets**

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

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

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

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

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

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

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

## 2. Accounting Standards Issued, Not Yet Adopted

The code requires that disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2020/21 code.

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

The changes will be effective from the 1st April 2020 and none are expected to have a material impact on the Council's 2019/20 or 2020/21 financial statements.

## 3. Critical Judgements in Applying Accounting Policies

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

- There is a high degree of uncertainty about future levels of funding for Local Government, however the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close the facilities and to reduce levels of service provision;

- Accounting for Public-Private Partnerships (PPP)/Not for Profit Distributing Model (NPDM). The Council is deemed to control the services provided under the agreement for the provision of educational establishments in accordance with *IFRC12*. The Council controls the services provided under the scheme and ownership of the schools will pass to the Council at the end of the contract. The schools are therefore recognised on the Council's Balance Sheet;

## 4. Future Assumptions and Estimation Uncertainties

The Annual Accounts contain estimated figures that are based on assumptions made by the Council about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However because balances cannot be determined with certainty actual results could be materially different from the assumptions and estimates.

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

| Item | Uncertainties | Effect is Actual Results Differ from Assumptions |
|---|---|---|
| Property, Plant and Equipment | Assets are carried in the balance sheet using a range of measurement bases, in line with IFRS 13. A number of assumptions are used in arriving at the valuation of assets which are determined by Royal Institute of Chartered Surveyors (RICS) qualified valuers employed within the Council's Asset Management Team.<br><br>Assets are depreciated over useful lives that are dependent on a number of assumptions including the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to the assets. | Changes in the assumptions used in arriving at the value of assets would change the carrying value of assets detailed in the balance sheet with a corresponding adjustment in the Revaluation Reserve or the Capital Adjustment Account.<br><br>If the useful life of the asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £5.034m for every year that useful lives had to be reduced. |
| Current Debtors, Council Tax, HRA Rents and Sundry Debtors | At 31 March 20 the Council's balance sheet has provisions for bad debts in respect of Council Tax of £19.976 million, HRA Rents £1.600 million and sundry debtors of £0.533m. However if the current economic conditions were to change significantly this level of provision might not be sufficient. | If collection rates were to deteriorate a 3% increase in each of the provisions would require an increase in respect of Council Tax £0.600 million, HRA Rents £0.050 million and sundry debtors of £0.016 million. |
| Pension Liability | Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which earnings are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson LLP are engaged to provide the Council with expert advice about the assumptions applied. | The effects of the net pension liability of changes in individual assumptions can be measured. ***Note 36*** to the Financial Statements includes a sensitivity analysis showing the impact of varying certain assumptions. In addition, it is estimated that a one-year increase in life expectancy would approximately increase the Employers Defined Benefit Obligation by around 3-5%. |

## 5. Events after the Reporting Period

The Unaudited Accounts were authorised for issue by the Chief Officer, Corporate resources on 30th June 2020. Events taken place after this date are not reflected in the annual accounts or notes. Events taking place before this date provided information about conditions existing at 31 March 20, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

## 6. Note to the Expenditure and Funding Analysis

| **Adjustments between Funding and Accounting Basis** | | | | **2019/20** |
|---|---|---|---|---|
| **Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts** | **Adjustments for Capital Purposes (1)** | **Net change for pension adjustments (2)** | **Other Adjustments (3)** | **Total Adjustments** |
| **Service** | **£000** | **£000** | **£000** | **£000** |
| Management | 0 | 119 | 22 | 140 |
| Children's Services | 126 | 638 | 75 | 839 |
| Communities and Economy | 26 | 453 | (1,733) | (1,254) |
| Education | 8,208 | 6,668 | 2,280 | 17,156 |
| Adult Social Care | 679 | 1,615 | 377 | 2,670 |
| Customer and Housing Services | 405 | 0 | 141 | 547 |
| Commercial Services | 6,018 | 1,198 | (24) | 7,193 |
| Finance and Integrated Service Support | 1,300 | 179 | (377) | 1,102 |
| Properties and Facilities Management | 999 | 1,701 | 734 | 3,434 |
| Housing Revenue Account | (9,063) | 546 | 0 | (8,517) |
| Lothian Valuation Joint Board | 0 | 0 | 0 | 0 |
| Central Services | 592 | 0 | 0 | 592 |
| Non-Distributable Costs | 0 | 0 | 18 | 18 |
| **Net Cost of Services** | **9,290** | **13,116** | **1,513** | **23,919** |
| Other income and expenditure from the Expenditure and Funding Analysis | (45,986) | 3,141 | (9) | (42,854) |
| **Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services** | **(36,696)** | **16,257** | **1,504** | **(18,935)** |

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

***Notes***

### 1) Adjustments for Capital Purposes

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

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

### 2) Net Change for the Pensions Adjustments

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

- **For services** – this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs;
- **For financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

### 3) Other Adjustments

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

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

## 7. Adjustments between Accounting Basis and Funding Basis under Regulations

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

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

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

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

| 2019/20 | General Fund Reserve £000 | HRA Balance £000 | Capital Fund £000 | Total Useable Reserves £000 | Total Unusable Reserves £000 |
|---|---|---|---|---|---|
| **Adjustments to the 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 | (15,589) | (668) | 0 | **(16,257)** | 16,257 |
| Financial Instruments | 9 | 0 | 0 | **9** | (9) |
| Short-term Accumulated Absences | (1,512) | 0 | 0 | **(1,512)** | 1,512 |
| Reversal of entries included in the surplus or deficit on the provision of services in relation to capital expenditure | (21,500) | 9,064 | 0 | **(12,436)** | 12,436 |
| **Total Adjustments to Revenue Resources** | **(38,592)** | **8,396** | **0** | **(30,196)** | **30,196** |
| **Adjustments between Revenue and Capital Resources** | | | | | |
| Net gain or loss on sale of non-current assets | 0 | (724) | 0 | **(724)** | 724 |
| Statutory provision for the repayment of debt | 6,292 | 4,899 | 0 | **11,191** | (11,191) |
| Net revenue expenditure financed from capital under statute (REFFCUS) | (592) | 0 | 0 | **(592)** | 592 |
| Capital Financed from Current Revenue (CFCR) | 0 | 0 | 0 | **0** | 0 |
| **Total Adjustments between Revenue and Capital Resources** | **5,700** | **4,175** | **0** | **9,875** | **(9,875)** |
| **Adjustments to Capital Resources** | | | | | |
| Application of capital grants to finance capital expenditure | 38,544 | 0 | 0 | **38,544** | (38,544) |
| Adjustments involving the capital fund | 0 | 0 | (5,195) | **(5,195)** | 5,195 |
| **Total Adjustments to Capital Resources** | **38,544** | **0** | **(5,195)** | **33,349** | **(33,349)** |
| **Total Adjustments** | **5,652** | **12,571** | **(5,195)** | **13,028** | **(13,028)** |

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

## 8. Movement in Earmarked Reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet general fund expenditure in 2021/22.

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

## 9. Other Operating Income and Expenditure

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

## 10. Financing and Investment Income and Expenditure

| 2018/19 £000 | Financing and Investment Income and Expenditure | 2019/20 £000 |
|---|---|---|
| 15,138 | Interest payable and similar charges | 15,978 |
| 2,562 | Net interest on the net defined benefit liability (asset) | 3,141 |
| -1,690 | Interest received and similar income | -1,887 |
| **16,010** | **Total** | **17,232** |

## 11. Taxation and Non-specific Grant Income

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

## 12. Group and Council Expenditure and Income Analysed by Nature

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

| 2018/19 £000 | | 2019/20 £000 |
|---|---|---|
| | **Expenditure** | |
| 154,144 | Employee Expenses | 168,255 |
| 188,972 | Other Service Expenses | 189,010 |
| (43,848) | Depreciation, amortisation and impairment | 12,437 |
| 14,471 | Interest payments | 15,411 |
| 1,463 | Gain/(Loss) on the disposal of non-current assets | 724 |
| (1,430) | Share of operating results of associates | (286) |
| **313,771** | **Total Expenditure** | **385,551** |
| | **Income** | |
| (69,568) | Fees, Charges and Other Service Income | (81,650) |
| (1,023) | Interest and Investment Income | (889) |
| (42,926) | Income from council tax | (46,380) |
| (261,233) | Government Grants and Contributions | (285,953) |
| **(374,751)** | **Total Income** | **(414,872)** |
| **(60,980)** | **(Surplus) or Deficit on the Provision of Services** | **(29,321)** |

## 13. Property, Plant and Equipment

**Revaluations**

The Council carries out a rolling programme which ensures that all valuations of property, plant and Equipment required to be measured at current value, Council Dwellings, Land and Buildings and Surplus Assets underdoes revaluation at least every five years. All valuations are carried out by Royal Institute of Chartered Surveyors (RICS) qualified valuers employed within the Council's Asset Management Team, with the exception of valuations of council dwellings which are based on beacon values carried out by the Council's Property Investment Manager.

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

**Depreciation**

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

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

**Capital Commitments**

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

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

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

## Movements on Balances

| Movements in 2019/20 | Council Dwellings | Buildings | Land | Vehicles, Plant and Equipment | Infrastructure Assets | Community Assets | Assets Under Construction | Surplus Assets | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Cost or Valuation** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** | **£000** |
| **Balance at 31 March 2019** | **379,936** | **353,445** | **12,007** | **32,888** | **70,856** | **8,072** | **16,455** | **2,204** | **875,863** |
| **Adjustments** | | | **(736)** | | | | | **736** | |
| **Balance at 1 April 2019** | **379,936** | **353,445** | **11,271** | **32,888** | **70,856** | **8,072** | **16,455** | **2,940** | **875,863** |
| Additions | 14,316 | 34,838 | 51 | 3,026 | 4,726 | 1 | 26,645 | 0 | 83,603 |
| De-recognition - Disposals | 0 | 0 | (40) | (125) | 0 | 0 | (729) | 0 | (894) |
| Reclassification of Assets | 4,172 | (201) | (342) | 0 | 285 | 243 | (4,157) | (400) | (400) |
| Revaluation increases/(decreases) recognised in the CIES | 17,944 | (2,142) | 2,284 | 0 | 0 | (120) | 0 | (58) | 17,908 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | (512) | 22,719 | 3,862 | 0 | 0 | (443) | 0 | 530 | 26,156 |
| Other Movements | 0 | 0 | 0 | 0 | 0 | 0 | (436) | 0 | (436) |
| **Balance At 31 March 2020** | **415,856** | **408,659** | **17,086** | **35,789** | **75,867** | **7,753** | **37,779** | **3,012** | **1,001,801** |
| **Accumulated Depreciation and Impairment** | | | | | | | | | |
| **Balance At 1 April 2019** | **(2,192)** | **(30,044)** | **0** | **(22,745)** | **(41,193)** | **(187)** | **0** | **(138)** | **(96,499)** |
| Depreciation Charge | (8,906) | (17,566) | 0 | (2,921) | (3,489) | (139) | 0 | (46) | (33,067) |
| De-recognition - Disposals | 0 | 0 | 0 | 95 | 0 | 0 | 0 | 0 | 95 |
| Reclassification of Assets | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Depreciation written out to the CIES | 0 | 3,038 | 0 | 0 | 0 | 5 | 0 | 0 | 3,043 |
| Depreciation written out to the Revaluation Reserve | 2,989 | 18,285 | 0 | 0 | 0 | 188 | 0 | 184 | 21,646 |
| **Balance At 31 March 2020** | **(8,109)** | **(26,287)** | **0** | **(25,571)** | **(44,682)** | **(134)** | **0** | **0** | **(104,783)** |
| **Net Book Value at 31 March 2020** | **407,747** | **382,372** | **17,086** | **10,218** | **31,185** | **7,619** | **37,779** | **3,012** | **897,018** |
| **Net Book Value at 31 March 2019** | **377,744** | **323,401** | **12,007** | **10,143** | **29,663** | **7,885** | **16,455** | **2,066** | **779,364** |

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

## 14. Heritage Assets

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

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

## 15. Intangible Assets

The Council accounts for purchased software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item Property, Plant and Equipment. The intangible assets include software licences, warranties and internally generated assets. The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. The Council is required to purchase allowances either prospectively or retrospectively, and surrender them on the basis of emissions.

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

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

## 16. Assets Held for Sale

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

## 17. Financial Instruments

**Categories of Financial Instruments**

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

| 31 March 2019 Non-current £000 | 31 March 2019 Current £000 | 31 March 2019 Total £000 | | Category | 31 March 2020 Non-current £000 | 31 March 2020 Current £000 | 31 March 2020 Total £000 | Note |
|---|---|---|---|---|---|---|---|---|
| | | | **Financial Assets:** | | | | | |
| 0 | 10,680 | 10,680 | Cash and cash Equivalents | Amortised Cost | 0 | 24,682 | 24,682 | *22* |
| 0 | 65,420 | 65,420 | Short term investments | Amortised Cost | 30,005 | 55,365 | 85,370 | |
| 0 | 10,911 | 10,911 | Debtors | Amortised Cost | 0 | 16,805 | 16,805 | *21* |
| 8,421 | 3 | 8,424 | Long term investments | Fair value through other comprehensive income | 7,745 | 1 | 7,746 | |
| **8,421** | **87,014** | **95,435** | **Total Financial Assets** | | **37,750** | **96,853** | **134,603** | |
| 0 | 8,020 | 8,020 | Total non-financial assets (Statutory Debtors) | | 0 | 6,207 | 6,207 | *21* |
| | | | **Financial Liabilities:** | | | | | |
| 219,605 | 20,507 | 240,112 | External Borrowings | Amortised Cost | 260,427 | 11,441 | 271,868 | |
| 82,832 | 2,303 | 85,135 | PPP Liability | Amortised Cost | 86,877 | 9,467 | 96,344 | *33* |
| 0 | 0 | 0 | Donated Asset Account Liability | Amortised Cost | 12,868 | 536 | 13,404 | *33* |
| 0 | 14,221 | 14,221 | Creditors | Amortised Cost | 0 | 18,198 | 18,198 | *23* |
| **302,437** | **37,031** | **339,468** | **Total Financial Liabilities** | | **360,172** | **39,642** | **399,814** | |
| 0 | 24,530 | 24,530 | Total non-financial liabilities (Statutory Creditors) | | 0 | 27,678 | 27,678 | *23* |

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

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

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

**Investments Designated at Fair Value through Other Comprehensive Income**

| 31-Mar-19 £000 | Non-Current Assets (Long-term) | 31-Mar-20 £000 |
|---|---|---|
| 8,093 | Equity Shareholding in Lothian Buses (Level 2) | 7,419 |
| 331 | Subordinated Debt Subscription in Newbattle DBFMCo (Level 3) | 327 |
| **8,424** | **Total** | **7746** |

*Lothian Buses Plc*

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

The valuation basis for the Council's shareholding (350,000 £1 ordinary shares) is calculated as net share of assets in line with the published results of Lothian Buses, the most recent of which are as follows:

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

*Newbattle DBFMco*

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

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

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

Other entities and individuals includes an estimated provision for impairment. Individual balances are considered before a collective impairment for all remaining debtors based on their age profile.

Impairment will apply to all outstanding debt at the balance sheet date for council tax, rents and all debts that are over six months past their payment date for sundry debtors.

**Income, Expenses, Gains and Losses**

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

| 2018/19 Surplus or Deficit on the Provision of Services £000 | 2018/19 Other Comprehensive Income and Expenditure £000 | | 2019/20 Surplus or Deficit on the Provision of Services £000 | 2019/20 Other Comprehensive Income and Expenditure £000 |
|---|---|---|---|---|
| | | **Net gains/losses on:** | | |
| 3,131 | 0 | Investments in equity instruments designated at fair value through other comprehensive income | (674) | 0 |
| **3,131** | **0** | **Total net/gains losses** | **(674)** | **0** |
| | | | | |
| | | **Interest Revenue:** | | |
| 0 | 667 | Financial assets measured at amortised cost | 0 | 999 |
| 0 | 438 | Other financial assets measured at fair value through other comprehensive income | 0 | 52 |
| **0** | **1,105** | **Total Interest Revenue** | **0** | **1,051** |
| | | | | |
| 0 | **8,522** | **Interest Expense** | | |
| | | | | |
| | | **Fee Expense:** | | |
| 0 | 81 | Financial assets or financial liabilities that are not at fair value through profit and loss | 0 | 102 |
| **0** | **81** | **Total Fee Expense** | **0** | **102** |

**Fair Values of Assets and Liabilities**

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

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

The rates quoted in this valuation were obtained by Link Asset Services, the Council's treasury management consultants, from the market on 31 March 2019.

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

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

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

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

| 31 March 2019 Carrying Amount £000 | Fair Value (New Loan Rate) £000 | Fair Value (Premature Redemption Rate) £000 | Financial Liabilities | 31 March 2020 Carrying Amount £000 | Fair Value (New Loan Rate) £000 | Fair Value (Premature Redemption Rate) £000 |
|---|---|---|---|---|---|---|
| 189,691 | 240,864 | 285,683 | PWLB Loans (Level 2) | 231,227 | 267,874 | 399,750 |
| 20,872 | 31,598 | 38,849 | Lender Option/Borrower Option (LOBO) Loans (Level 2) | 20,865 | 30,702 | 46,702 |
| 29,549 | 31,777 | 31,817 | Loans from commercial lenders and other local authorities (Level 2) | 19,776 | 20,853 | 29,750 |
| 14,221 | 14,221 | 14,221 | Creditors | 18,198 | 18,198 | 18,198 |
| 85,135 | 85,135 | 85,135 | PFI and Finance Lease Liability | 96,344 | 96,344 | 96,344 |
| 0 | 0 | 0 | Donated Asset Account Liability | 13,404 | 13,404 | 13,404 |
| **339,468** | **403,595** | **455,705** | **Total Financial Liabilities** | **399,814** | **447,375** | **604,148** |

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

| 31 March 2019 Carrying Amount £000 | Fair Value £000 | Financial Assets | 31 March 2020 Carrying Amount £000 | Fair Value £000 |
|---|---|---|---|---|
| 10,680 | 10,680 | Cash and Cash Equivalents | 24,682 | 24,682 |
| 65,420 | 65,420 | Short Term Investments (Fixed Term Deposits) | 85,369 | 86,092 |
| 10,911 | 10,911 | Debtors | 16,805 | 16,805 |
| **87,011** | **87,011** | **Total Financial Assets** | **126,856** | **127,579** |

## 18. Nature and Extent of Risks Arising from Financial Instruments

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

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

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

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

**Credit Risk**

Credit risk arises from the short term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers.

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

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

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

The expected credit loss for the Council's financial assets held at amortised cost has been calculated to be £0.007 million (2018/19 £0.013 million). The Council deems this immaterial and therefore has not included any impact of this within the Comprehensive Income and Expenditure Statement (CIES).

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

- Lothian Buses Shareholding – there has been no default on the dividends payable to the Council over the period the Council has held this investment;

- Subordinated Debt Investment in Newbattle DBFM Co SPV – Whilst there are no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated, there are no indications of adverse performance within the DBFM Co or any indications that future scheduled lifecycle maintenance will not be able to take place or senior and/or subordinated debt will not be able to be repaid. The Council will continue to review the performance of the SPV on an annual basis.

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

| 31 March 2019 £000 | Financial Assets | 31 March 2019 £000 |
|---|---|---|
| 10,680 | Less than 3 months | 54,968 |
| 20,406 | 3 to 6 months | 14,999 |
| 30,008 | 6 months to 1 year | 10,080 |
| 15,006 | More than 1 year | 30,005 |
| **76,100** | **Total Financial Assets** | **110,052** |

**Liquidity Risk**

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

The Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the PWLB and money markets for access to longer-term funds. The Council is also required to provide a balanced budget through the *Local Government Finance Act 1992*, which ensures sufficient monies are raised to cover annual expenditure. As a result, there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

An age analysis of external borrowings are shown in the table below:-

| 31 March 2019 £000 | Financial Assets | 31 March 2020 £000 |
|---|---|---|
| 20,507 | Less than 1 year | 11,441 |
| 9,275 | 1 to 2 years | 1,500 |
| 3,857 | 2 to 5 years | 3,752 |
| 5,569 | 5 to 10 years | 14,623 |
| 62,820 | 10 to 20 years | 63,404 |
| 5,437 | 20 to 30 years | 14,529 |
| 85,597 | 30 to 40 years | 90,570 |
| 42,048 | 40 to 50 years | 67,049 |
| 5,000 | Greater than 50 years | 5,000 |
| **240,110** | **Total Financial Assets** | **271,868** |

**Refinancing Risk**

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for maturity structure debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk.

The Council has approved treasury, investment strategies address the main risks, and the central treasury team address the operational risks within the approved parameters. This includes:

- Monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt;
- Monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Council's day-to-day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer-term cash flow needs.

Furthermore, the Council has safeguards in place to ensure a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time on unfavourable interest rates.

**Market Risk**

*Interest Rate Risk*

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid or received on variable rate instruments, and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

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

- Decreases in interest rates will affect the interest earned on variable rate investments, potentially reducing income credited to the CIES;
- Increases in interest rates will affect interest paid on variable rate borrowings potentially increasing interest expense charge to the CIES;
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not affect the balance sheet or the CIES for the majority of assets held at amortised cost, but will affect the disclosure note for fair value. It would have a negative effect on the balance sheet for those assets shown at fair value;
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not affect the balance sheet or CIES for the majority of liabilities held at amortised cost, but will affect the disclosure note foe fair value.

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

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

According to this assessment strategy, at 31 March 2019, if interest rates had been 1% higher with all other values held constant, the financial effect would be:

| 31 March 2019 £000 | | 31 March 2019 £000 |
|---|---|---|
| | **Impact on taxpayer & rent payers** | |
| 68 | Increase on interest payable on variable rate borrowings | 26 |
| (759) | Increase in interest receivable on variable rate instruments | (869) |
| **(691)** | **Net effect on Comprehensive Income and Expenditure Statement** | **(843)** |
| | **Other Presentational Changes** | |
| (46,414) | Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit in the Comprehensive Income and Expenditure Statement) | (51,732) |

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

*Price Risk*

There is no price risk associated with the Council's available for sale investments specified in *Note 18* of the Financial Statements.

*Foreign Exchange Risk*

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

## 19. Inventories

| 2018/19 £000 | Inventories | 2019/20 £000 |
|---|---|---|
| **881** | **Balance outstanding at start of year** | **868** |
| 734 | Purchases | 766 |
| (747) | Recognised as an expense in the year | (890) |
| **868** | **Total Long Term Liabilities** | **744** |

## 20. Long Term Debtors

| 2018/19 £000 | Long Term Debtors | 2019/20 £000 |
|---|---|---|
| 2,957 | Prepayment to PPP Contractor | 3,670 |
| 40 | Pacific Shelf | 43 |
| **2,997** | **Total Long Term Debtors** | **3,713** |

## 21. Short Term Debtors

| 2018/19 £000 | Short Term Debtors | 2019/20 £000 |
|---|---|---|
| 4,795 | Central Government Bodies | 5,294 |
| 116 | Other Public Sector Bodies | 59 |
| 14,020 | Other Entities and Individuals | 17,659 |
| **18,931** | **Total Short Term Debtors** | **23,012** |

## 22. Cash and Cash Equivalents

| 2018/19 £000 | Cash and Cash Equivalents | 2019/20 £000 |
|---|---|---|
| 502 | Cash held by the Council | 238 |
| 9,772 | Short Term Deposits | 26,391 |
| 406 | Bank Current Accounts | (1,947) |
| **10,680** | **Total Cash and Cash Equivalents** | **24,682** |

## 23. Creditors

| 2018/19 £000 | Creditors | 2019/20 £000 |
|---|---|---|
| 3,259 | Central Government Bodies | 1,418 |
| 2,466 | Other Public Sector Bodies | 2,075 |
| 33,026 | Other Entities and Individuals | 42,383 |
| **38,751** | **Total Creditors** | **45,876** |

## 24. Provisions

| | Notes | Uninsured Losses | VSER | Total |
|---|---|---|---|---|
| | | *(1)* | *(2)* | |
| | | £000 | £000 | £000 |
| **Balance at 1 April 2019** | | **692** | **68** | **760** |
| New provisions made during the year | | 525 | 0 | 525 |
| Increase/(decrease) to existing insurance provisions during the year | | 0 | 0 | 0 |
| Amounts used during the year | | (381) | (68) | (449) |
| **Balance at 31 March 20** | | **836** | **0** | **836** |

*Notes:*

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

(2) The Council had in place for a period during 2018/19 a time limited Voluntary Severance Scheme (VSER) scheme. A provision was made in 2018/19 for staff release costs where employees have an agreed departure date as at 31 March 2019. These staff all left the Council during 2019/20.

## 25. Long Term Liabilities

| 2018/19 £000 | Long Term Liabilities | 2019/20 £000 |
|---|---|---|
| 124,359 | Net Pension Liability *(Note 34)* | 102,492 |
| 82,831 | Public Private Partnership Liabilities *(Note 33)* | 86,878 |
| 0 | Public Private Partnership Donated Asset (Note 33) | 12,868 |
| **207,190** | **Total Long Term Liabilities** | **202,238** |

## 26. Usable Reserves

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

## 27. Unusable Reserves

| 2018/19 £000 | Unusable Reserves | 2019/20 £000 |
|---|---|---|
| (143,589) | Revaluation Reserve | (145,745) |
| (285,364) | Capital Adjustment Account | (361,575) |
| 124,359 | Pension Reserve | 102,492 |
| 5,633 | Employee Statutory Adjustment Account | 7,145 |
| 2,165 | Financial Instruments Adjustment Account | 1,997 |
| (7,743) | Available for Sale Financial Instruments Reserve | (7,069) |
| **(304,539)** | **Total Unusable Reserves** | **(402,755)** |

**Revaluation Reserve**

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are revalued downward or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation or disposed of and the gains are realised.

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

| 2018/19 £000 | Revaluation Reserve | 2019/20 £000 |
|---|---|---|
| (110,563) | Balance at 1st April | (143,590) |
| 0 | Adjustments to the Opening Balance | 35,521 |
| **(110,563)** | **Revised Balance at 1st April** | **(108,069)** |
| (32,275) | (Upward) / downward Revaluation of Assets | (25,657) |
| (10,744) | Downward revaluation of assets and impairment losses not charged to the Surplus / (Deficit) on the provision of services | (21,646) |
| 5,565 | Adjusting amount from Capital Adjustment Account | 7,166 |
| 4,427 | Accumulated losses on assets sold | 2,461 |
| 0 | Other movements | 0 |
| **(143,590)** | **Balance at 31 March** | **(145,745)** |

### Capital Adjustment Account

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

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

***Note 6*** provides further details of transactions posted to the account.

| 2018/19<br>£000 | Capital Adjustment Account | 2019/20<br>£000 |
|---|---|---|
| (197,754) | Balance at 1st April | (285,364) |
| | **Adjustments to the opening balance** | |
| 249 | Adjustments relating to revalued assets | (35,521) |
| **(197,505)** | **Revised Balance at 1st April** | **(320,885)** |
| | **Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:** | |
| 30,139 | Charges for depreciation on non-current assets | 33,071 |
| (74,219) | Valuation movements on non-current assets | (20,951) |
| 232 | Amortisation of intangible assets | 316 |
| 1,944 | Amounts of non-current assets written off on disposal or sale | 4,632 |
| (9,992) | Adjusting amounts written out of the Revaluation Reserve | (9,627) |
| 164 | Net revenue expenditure financed from capital under statute (REFFCUS) | 592 |
| (1,061) | Other movements | (274) |
| **(250,299)** | **Net written out amount of the cost of non-current assets consumed in year** | **(313,126)** |
| | **Capital Financing for the year:** | |
| (482) | Use of Capital Receipts to finance new Capital expenditure | (3,909) |
| 457 | Capital Receipts transferred to the Capital Fund | 7,632 |
| (24,557) | Capital Grants and Contributions credited to the CIES | (40,981) |
| (10,421) | Statutory Provision for the financing of capital investment | (11,191) |
| (64) | Capital expenditure charged against the General Fund and HRA (CFCR) | 0 |
| **(285,364)** | **Balance at 31 March** | **(361,575)** |

### Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement (CIES) as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employers contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and resources the

Council has set aside to meet them. Statutory arrangements will ensure that funding will have been set aside by the time benefits come to be paid.

| 2018/19 £000 | Pension Reserve | 2019/20 £000 |
|---|---|---|
| 85,513 | Balance at 1st April | 124,359 |
| 17,287 | Remeasurements of the net defined benefit liability/(asset) | (38,124) |
| 36,488 | Reversal of items relating to net changes for retirement benefits charged to Surplus or Deficit on the Provision of Services in the CIES | 31,997 |
| (14,929) | Employers pension contributions | (15,740) |
| **124,359** | **Balance at 31 March** | **102,492** |

## Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. An example of this is annual leave entitlement due but not used by 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

| 2018/19 £000 | Accumulated Absences Account | | 2019/20 £000 |
|---|---|---|---|
| 6,327 | Balance at 1st April | | 5,633 |
| (6,327) | Settlement or cancellation of accrual made at the end of the preceding year | (5,633) | |
| 5,633 | Amounts accrued at the end of the current year | 7,145 | |
| (694) | 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 | | 1,512 |
| **5,633** | **Balance at 31 March** | | **7,145** |

## Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

| 2018/19 £000 | Financial Instruments Adjustment Account | 2019/20 £000 |
|---|---|---|
| 2,333 | Balance at 1st April | 2,165 |
| (9) | Proportion of equivalent interest rate calculation on lender option/borrower option loans | (9) |
| (159) | Change in share of equivalent interest rate calculation | (159) |
| **2,165** | **Balance at 31March** | **1,997** |

## Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market process or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost or disposed of and the gains are realised.

| 2018/19 £000 | Available for Sale Financial Instruments Reserve | 2019/20 £000 |
|---|---|---|
| (7,717) | Balance at 1st April | (7,743) |
| (26) | Revaluation of investments | 674 |
| **(7,743)** | **Balance at 31 March** | **(7,069)** |

## 28. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20.

| 2018/19 £000 | Credited to Services | 2019/20 £000 |
|---|---|---|
| 22,109 | Housing Benefit Subsidy | 21,387 |
| 2,296 | Unitary Charge Funding | 2,444 |
| 2,273 | Pupil Equity Funding | 2,253 |
| 1,356 | Community Justice Grant | 1,341 |
| 965 | LEADER Programme | 1,073 |
| 0 | Regenerating Rosewell Project | 884 |
| 528 | Track 2 Train | 0 |
| 2,298 | Other Entities and Individuals | 2,107 |
| **31,825** | **Total** | **31,489** |

## 29. Capital Grants Received in Advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the grantor.

| 2018/19 £000 | Capital Grants Received in Advance | | 2019/20 £000 |
|---|---|---|---|
| 24,410 | Balance at 1st April | | 31,040 |
| (112) | Opening Balance Adjustment | | |
| | **New capital grants received in advance, conditions of use no met** | | |
| 3,777 | Scottish Government Early years Grant | 6,300 | |
| 0 | Scottish Government Town Centre Capital Fund | 699 | |
| 6,577 | Section 75 contributions from private developers | 7,806 | |
| 32 | Other Grants Received in Advance | (4) | |
| 10,386 | | | 14,800 |
| (3,644) | Amounts released to CIES, conditions of use met | | (11,914) |
| **31,040** | **Balance at 31 March** | | **33,927** |

## 30. External Audit Costs

The intimated fee payable to Audit Scotland in respect of the work carried out by Ernst and Young LLP with regard to external audit services carried out by the appointed auditor for the year is £0.232 million ( 2018/19 £0.244 million) . Where further additional work is required, fees will be agreed with management and reported to the Audit Committee in our 2019/20 Annual Audit Report.

## 31. Related Parties

The Council is required to disclose material transactions with related parties, that is bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council.

**The Scottish Government**

The Scottish Government has significant influence over the general operations of the Council, being responsible for providing the statutory framework within which the Council operates. The Scottish Government also provides the majority of the Council's funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (such as Council Tax bills and Housing Benefits).

**Officers**

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

**Elected Members**

Elected members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2019/20 is shown in the Remuneration Report.

Members' Register of Interests can be viewed on the Council's website. A review of these interests has been conducted. Related party interests for which transactions exist in 2019/20 were declared by eight members:

with voluntary bodies or charitable organisations that received funding totalling an estimated value of £2.135 million.

with businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.490 million.

Included within the figure of £2.135 million are payments totalling £1.582 million to Rosewell Development Trust, mainly in relation to the construction of a new community hub. This figure includes £0.834 million of Scottish Government Regeneration Capital Grant.

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

Entities Controlled or Significantly Influenced by the Council

During the year the Council entered into material transactions with the Lothian Valuation Board. This amounted to £0.549 million (2018/19 £0.523 million). There was no balance due to or from the Lothian Valuation Board as at 31 March 2020.

The Council has a number of joint working arrangements with other local authorities. In 2019-20 payments of £1.831 million were made to other local authorities and income of £0.795 million was received from other local authorities.

The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.922 million of resource transfer funding to the Council in 2019/20 in respect of activities delegated to the Midlothian Integration Joint Board, as well as an additional £4.816 million in relation to Social Care Fund, £1.524 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

The Council delegated resources totalling £42.593 million to the Midlothian Integration Joint Board in 2019/20. These resources were allocated to the Council for the provision of Adult Social Care services. NHS Lothian also delegated financial resources to the Board. The Board provides the strategic direction in relation to the delivery of Health and Adult Social Care Services in Midlothian. The Council provides assistance in kind in terms of Board staff (Chief Officer) and administrative support for the operation of the Board. In addition no charge is made for central support functions provided over and above the resources delegated which relate specifically to Adult Social Care. As at 31 March 2020 the Council held £1.567million on behalf of the Board.

## 32. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PPP contracts), together with the resources that have been used to finance them.

| **2018/19 £000** | **Capital Expenditure and Capital Financing** | | **2018/19 £000** |
|---|---|---|---|
| **333,678** | **Opening Capital Financing Requirement** | | **359,774** |
| | ***Capital Investment:*** | | |
| 31,557 | Property, Plant and Equipment | 55,745 | |
| 0 | Intangible Assets | 168 | |
| 33,781 | Long Term Liabilities | 27,743 | |
| 164 | Revenue expenditure funded from capital under statute | 592 | |
| **65,502** | **Total Capital Investment** | | **84,248** |
| | ***Sources of Finance:*** | | |
| (3,304) | Capital Receipts | (487) | |
| (22,217) | Government Grants | (22,916) | |
| (2,403) | Contributions from other bodies | (14,632) | |
| (11,482) | Loans Fund and Lease Repayments | (11,726) | |
| **(39,406)** | **Total Sources of Finance** | | **(49,761)** |
| **359,774** | **Closing Capital Financing Requirement** | | **394,261** |
| | | | |
| **26,096** | **Increase/(decrease) in Capital Financing Requirement** | | **34,487** |

## 33. Public Private Partnership (PPP) / Not for Profit Distributing Model (NPDM) 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 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 NPDM contract which was jointly procured between Midlothian and the City of Edinburgh Council. At the end of the concession period in 2036 the asset will not revert back to the partner Councils and will remain under the full control of the DBFO operator, who has the option to continue to operate the asset from year 20 through to year 40, paying the market rent for the lease of the land over this period. At the end of the 40th year, the asset will be decommissioned and the decommissioned site transferred back to the ownership of the Councils. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 40 days' notice.

*Residual Waste Treatment Plant, Millerhill*

This is a 25- year NPDM contract which was jointly procured between Midlothian and the City of Edinburgh Council. At 31 March 2019 the contract was in the commissioning phase, with full service commencement achieved on 17 April 2019. The asset will be fully maintained throughout the life of the contract in accordance with the Partner Council's requirements and will be inspected 18 months prior to the end of the contract (contract end date 6 May 2044) to ensure that it has been maintained. The asset will then be handed back to the Partner Councils in a condition that is commensurate with such maintenance. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice, the issue of a Partner Council Default notice, or voluntary termination by the Partner Councils with variable notice periods as defined in the contract.

The value of assets held under such arrangement at 31 March 2020 are as follows:

| 2018/19 £000 | Value of PPP Assets | 2019/20 £000 |
|---|---|---|
| 64,284 | Opening Balance | 99,584 |
| (1,117) | Depreciation | (3,534) |
| 0 | Written Back Depreciation on Revaluation | 4,038 |
| 173 | Revaluation | 17,121 |
| 36,244 | Additions | 28,194 |
| **99,584** | **Closing Balance** | **145,403** |

The assets used to provide the services at the Dalkeith Schools Community Campus, the Primary Schools and the Newbattle Community Campus are recognised in the Council's Balance Sheet under the Property, Plant and Equipment category.

There is a donated asset account at 31 March 2020 for the financing of the Millerhill Residual Waste asset of £13.404 million. The recognition of donated asset income will be on a flat line basis over the remaining 25 years of the contract.

There is a deferred liability at 31 March 2020 for the financing of these assets of £96.344 million (2018/19 £85.135 million), with the movement including the recognition of the Millerhill Residual Waste Facility deferred liability opening balance of £14.338 million.

During the year a total of £3.128 million (2018/19 £2.052 million) was paid in relation to finance lease deferred liabilities under such contracts. Details of future payments to be made under arrangements are:

| Dalkeith Schools Campus | Liability £000 | Interest £000 | Service Charge £000 | Total £000 |
|---|---|---|---|---|
| Within 1 year | 838 | 2,089 | 2,075 | 5,002 |
| Within 2 to 5 years | 4,247 | 7,460 | 8,833 | 20,540 |
| Within 6 to 10 years | 8,076 | 6,559 | 12,341 | 26,976 |
| Within 11 to 15 years | 8,395 | 1,944 | 9,695 | 20,034 |
| **Total Remaining Contract** | **21,556** | **18,052** | **32,944** | **72,552** |

| Midlothian Primary Schools | Liability £000 | Interest £000 | Service Charge £000 | Total £000 |
|---|---|---|---|---|
| Within 1 year | 866 | 2,103 | 2,063 | 5,032 |
| Within 2 to 5 years | 4,142 | 7,732 | 8,783 | 20,657 |
| Within 6 to 10 years | 7,120 | 7,722 | 12,272 | 27,114 |
| Within 11 to 15 years | 10,124 | 4,718 | 13,885 | 28,727 |
| Within 16 to 20 years | 6,578 | 881 | 7,665 | 15,124 |
| **Total Remaining Contract** | **28,830** | **23,156** | **44,668** | **96,654** |

| Newbattle Community Campus | Liability £000 | Interest £000 | Service Charge £000 | Total £000 |
|---|---|---|---|---|
| Within 1 year | 769 | 1,641 | 124 | 2,534 |
| Within 2 to 5 years | 3,486 | 6,154 | 529 | 10,169 |
| Within 6 to 10 years | 5,445 | 6,605 | 739 | 12,789 |
| Within 11 to 15 years | 6,968 | 5,081 | 837 | 12,886 |
| Within 16 to 20 years | 8,917 | 3,132 | 947 | 12,996 |
| Within 21 to 25 years | 6,860 | 725 | 659 | 8,244 |
| **Total Remaining Contract** | **32,445** | **23,338** | **3,835** | **59,618** |

| Millerhill Residual waste | Deferred Liability £000 | Interest £000 | Service Charge £000 | Total £000 |
|---|---|---|---|---|
| Within 1 year | 6,994 | 1,427 | 979 | 9,400 |
| Within 2 to 5 years | 380 | 3,602 | 4,328 | 8,310 |
| Within 6 to 10 years | 510 | 4,194 | 6,249 | 10,953 |
| Within 11 to 15 years | 1,020 | 3,703 | 6,935 | 11,658 |
| Within 16 to 20 years | 1,886 | 2,720 | 7,850 | 12,456 |
| Within 21 to 25 years | 2,723 | 958 | 7,196 | 10,877 |
| **Total Remaining Contract** | **13,513** | **16,604** | **33,537** | **63,654** |

## 34. Retirement Benefits

The Council participates in two different pension schemes which meets the needs of employees. Both schemes provide members with defined benefits related to pay and service.

**Teachers**

The Scottish Teachers Superannuation Scheme is an unfunded scheme administered by the Scottish Government. The scheme is excluded from the accounting requirements of *IAS 19: Employee Benefits* as it is a notional scheme which does not allow for the identification of pension liabilities consistently and reliably between participating authorities. The accounts, therefore, only include the payments made by the Council to the scheme in the year and do not reflect the estimated pension assets or liabilities of the scheme. The exception to this are payments in relation to unfunded pension enhancements for members of the scheme as they are administered through the Local Government Pension Scheme and are taken into consideration in accounting for pension costs under *IAS 19: Employee Benefits*.

In 2019/20 the Council paid £8.463 million (2018/19 £6.479 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 17.2% for the period to 31 August 2019 and 23% for the remainder of the financial year (2018/19 17.2%).

**Local Government Pension (Scotland) Scheme**

Employees other than teachers are eligible to join the Local Government Pension Scheme. The pension costs charged to services in respect of these employees have been calculated under *IAS 19: Employee Benefits.*

In 2019/20 the Council paid an employer contribution of £15.740 million (2018/19 14.929 million) into the Lothian Pension Fund, representing 23.75% (2018/19 21.9%) of pensionable pay. This is the expenditure met from Government Grants and Local taxation. It is estimated that the employer contribution for the period to 31 March 2021 will be £14.565 million.

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following transactions have been made in the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement.

| 2018/19 £000 | Comprehensive Income and Expenditure Statement | 2019/20 £000 |
|---|---|---|
| | **Cost of Services:** | |
| 24,738 | Current service cost | 28,714 |
| 9,188 | Past service cost (including curtailments) | 142 |
| | **Financing and Investment Income and Expenditure:** | |
| 15,952 | Interest Cost | 16,294 |
| | **Other Post Employment Benefit charged to the CIES:** | |
| (13,390) | Expected Return on Scheme Assets | (13,153) |
| **36,488** | **Total Post Employment Benefit Charged to the CIES** | **31,997** |

The service cost figures include and allowance for administration expenses of 0.3% of payroll.

In addition to the recognised gains and losses included in the CIES, actuarial gains of £38.124 million (2018/19 loss of 17.287 million) were included in other comprehensive income and expenditure in the CIES.

**Assets and Liabilities in Relation to Retirement Benefits**

| 2018/19 £000 | Reconciliation of Present Value of the Scheme Liabilities | 2019/20 £000 |
|---|---|---|
| **579,547** | **Opening Balance** | **669,772** |
| 24,738 | Current service cost | 28,714 |
| 15,952 | Interest Cost | 16,294 |
| 3,835 | Contributions by Scheme Participants | 3,960 |
| 50,778 | Actuarial (gains)/losses | (74,219) |
| 9,188 | Past service cost (including curtailments) | 142 |
| (826) | Estimated Unfunded Benefits Paid | (801) |
| (13,440) | Estimated Benefits Paid | (13,648) |
| **669,772** | **Closing Balance at 31 March** | **630,214** |

| 2018/19 £000 | Reconciliation of Fair Value of the Scheme Assets | 2019/20 £000 |
|---|---|---|
| **494,034** | **Opening Balance** | **545,413** |
| 13,390 | Expected Return on Assets | 13,153 |
| 3,835 | Contributions by Scheme Participants | 3,960 |
| 14,103 | Contributions by the Employer | 14,939 |
| 826 | Contributions in respect of Unfunded Benefits | 801 |
| 33,491 | Actuarial gains/(losses) | (36,095) |
| (826) | Unfunded Benefits Paid | (801) |
| (13,440) | Benefits Paid | (13,648) |
| **545,413** | **Closing Balance at 31 March** | **527,722** |

The expected return on the scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date.

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £630.214 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £102.492 million.

However, under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. The fund's actuary reported that, at 31 March 2018, the funding level was 98% and that a period of 20 years has been adopted in assessing the level of contribution required to fund that deficiency. The employer's contribution in 2019/20 was 353% of employee's contributions.

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years are dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by the actuary and are based on the latest full valuation of the scheme as at 31 March 2018.

The main assumptions used by the actuary have been:

| 2018/19 | Longevity at 65 for Current Pensions (Mortality) | 2019/20 |
|---|---|---|
| 21.7 | Men (Years) | 21.7 |
| 24.3 | Women (Years) | 24.3 |
| **2018/19** | **Longevity at 65 for Future Pensions (Mortality)** | **2019/20** |
| 24.7 | Men (Years) | 24.7 |
| 27.5 | Women (Years) | 27.5 |
| **2018/19** | **Financial Assumptions** | **2019/20** |
| 2.5% | Rate of increase in Inflation/Pensions | 1.9% |
| 4.2% | Rate of Increase in Employee Earnings | 3.5% |
| 2.4% | Discount Rate | 2.3% |

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from the previous period.

| Pension Sensitivities at 31 March 20 | Approximate % increase to the Employer Obligation | Approximate monetary amount £000 |
|---|---|---|
| 0.5% decrease Real Discount Rate | 11% | 67,591 |
| 0.5% increase in the Salary Increase Rate | 2% | 11,966 |
| 0.5 % increase in the Pension Increase Rate (CPI) | 9% | 54,515 |

**Commutation**

An allowance is included for future retirements to elect to take 50% of the maximum additional; tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

The Pension Fund Assets consist of the following categories, by proportion of the total assets held:

| 31-Mar-19 Percentage of Total Assets | Pension Fund Assets | 31-Mar-20 Quoted prices in active markets | Quoted prices not in active markets | Total | Percentage of Total Assets |
|---|---|---|---|---|---|
| | | £000 | £000 | £000 | |
| | **Equity Securities:** | | | | |
| 11% | Consumer | 50,296.3 | | 50,296.3 | 10% |
| 10% | Manufacturing | 76,110.1 | | 76,110.1 | 14% |
| 7% | Energy and Utilities | 33,658.6 | | 33,658.6 | 6% |
| 8% | Financial Institutions | 34,322.0 | | 34,322.0 | 7% |
| 6% | Health and Care | 36,518.4 | | 36,518.4 | 7% |
| 3% | Information Technology | 22,810.6 | | 22,810.6 | 4% |
| 12% | Other | 38,528.1 | | 38,528.1 | 7% |
| | **Debt Securities:** | | | | |
| 0% | Corporate Bonds (Investment Grade) | 8,838.9 | 19,442.1 | 28,261.0 | 5% |
| 0% | Corporate Bonds (Non - Investment Grade) | | | | 0% |
| 11% | UK Government | 32,488.3 | | 32,488.3 | 6% |
| 0% | Other | | | | 0% |
| 1% | **Private Equity: All** | | 4,591.5 | 4,591.5 | 1% |
| 7% | **Real Estate** | | | | |
| | UK Property | 6,069.7 | 28,509.8 | 34,579.5 | 7% |
| | Overseas Property | | 464.9 | 464.9 | 0% |
| | **Investment Trusts and Unit Trusts:** | | | | |
| 1% | Equities | 6,461.4 | | 6,461.4 | 1% |
| 3% | Bonds | 2,265.1 | | 2,265.1 | 0% |
| 0% | Hedge Funds | | | | 0% |
| 0% | Commodities | | | | 0% |
| 12% | Infrastructure | | 74,199.5 | 74,199.5 | 14% |
| 0% | Other | | | | 0% |
| | **Derivatives:** | | | | |
| 0% | Inflation | | | | 0% |
| 0% | Interest Rate | | | | 0% |
| 0% | Foreign Exchange | 1,076.7 | | 1,076.7 | 0% |
| 0% | Other | | | | 0% |
| 8% | **Cash and Cash Equivalents: All** | 51,090.0 | | 51,090.0 | 10% |
| **100%** | **Total** | **400,534** | **127,188** | **527,722** | **100%** |

**Projected Defined Benefit Cost for the period to 31 March 2021**

Analysis of projected amount to be charged to operating profit for the period 31 March 2021:

| Period ended 31 March 2020 | Assets | Obligations | Net Liability/ (Asset) | % of Pay |
|---|---|---|---|---|
| | £000 | £000 | £000 | |
| Projected Current Service Cost* | 0 | 24,122 | (24,122) | -36.8% |
| Past Service Cost (including curtailments) | 0 | 0 | 0 | 0% |
| Effect of Settlements | 0 | 0 | 0 | 0% |
| **Total Service Cost** | **0** | **24,122** | **(24,122)** | **-36.8%** |
| Interest Income on Plan Assets | 12,179 | 0 | 12,179 | 18.6% |
| Interest Cost on Defined Benefit Obligation | 0 | 14,637 | (14,637) | -22.3% |
| **Total Net Interest Cost** | **12,179** | **14,637** | **(2,458)** | **-3.7%** |
| **Total Included in Profit and Loss** | **12,179** | **38,759** | **(26,580)** | **-40.5%** |

*The current service cost includes an allowance for administration expenses of 0.3% of payroll. The monetary value is based on a projected payroll of £65.557 million.

The contributions paid by the employer are set by the Fund Actuary at each triennial valuation (the most recent being 31 March 2018), or at any other time as instructed to do so by the Administering Authority. The contribution payable over the period to March 2020 are set out in the Rate and Adjustments certificate.

**Investment Returns**

| Investment Returns | Percentage |
|---|---|
| Actual Returns from 31 March 2019 to 31 March 2020 | (4.2%)% |
| **Total Returns from 1 April 2019 to 31 March 2020** | **(4,2%)%** |

Local Government legislation provides that Local Authorities have an obligation to meet their share of the expenditure if the Joint Boards of which they are constituent members. At 31 March 2020 the liability for Pensions sits at £6.453 million. As a consequence the Council has additional liabilities arising from the pension deficit of the Lothian Valuation Joint Board.

## 35. Contingent Liabilities

The Council recognises the potential for compensation claims deriving from Scottish Government's Limitation (Childhood Abuse) (Scotland) Act 2017 which removes the three year time limit on claims of child abuse. Some claims will be historic and relate to Lothian Regional Council, Midlothian District Council or their predecessors and some will date post reorganisation and relate to Midlothian Council. At the current time the Council has six ongoing cases. These are currently at differing stages which range from waiting on further information from the pursuer's solicitors to cases being handled by our insurers, where the extent of our cover and the level of excess payable is being investigated. Of these ongoing cases there have been no value cited in the letter of claim and little case lase to any indication of what value might be attached to the case.

## 36. Contingent Assets

There are no contingent assets to report for the financial year 2019/20.

## 37. Midlothian Council Trusts, Bequests, Common Good and Community Funds

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

The main funds are:

| 2018/19 £000 | Trusts, Bequests, Common Good and Community Funds | 2019/20 £000 |
|---|---|---|
| 11 | Dalkeith Common Good Fund | 12 |
| 2 | Penicuik Common Good Fund | 2 |
| 51 | Community Mining Funds | 51 |
| 21 | Other Funds | 22 |
| **85** | **Total** | **87** |

A total of £0.038 million has been committed to be spent from these funds.

The funds do not represent assets of the Council and are included in the Balance Sheet as creditors except the Community Mining Funds that are held in separate bank accounts.

## 38. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2019/20 (The Code) requires Local Authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

**Valuation of Property Plant and Equipment**

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

**Depreciation**

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

**Goodwill**

The Council has not paid any consideration for its interest and thus no goodwill is involved in the acquisition.

## Basis of Consolidation

Subsidiaries are consolidated on a line-by-line basis. All other entities are accounted for under the accounting conventions of the "acquisition basis" using the equity method – the Council's share of the entities results and its share of other gains and losses (recognised in the Group CIES). All entities have the same reporting date as the Council.

### Restrictions on the Transfer of Funds

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

| | Share | Share of Assets | Share of Liabilities | Share of Revenues | Share of (Profit)/ Loss |
|---|---|---|---|---|---|
| **Subsidiaries:** | **%** | **£000** | **£000** | **£000** | **£000** |
| Trusts, Bequests, Common Good and Community Funds | 100 | 87 | 87 | 2 | (2) |
| Pacific Shelf 826 ltd | 100 | 0 | 44 | 0 | 3 |
| **Associates:** | | | | | |
| Lothian Valuation Joint Board | 9 | 184 | 674 | (1,353) | (218) |
| Midlothian integration Joint Board | 50 | 2,311 | 0 | (74,566) | (372) |

The information above agrees to the group accounts after the elimination of inter-company transactions.

### Combining Entities

The following table provided further details about the entities incorporated into the Council's Group Accounts:

| Group Entities | Nature of Body | Accounts Available From |
|---|---|---|
| **Subsidiaries:** | | |
| Trusts, Bequests, Common Good and Community Funds | To award grants across Midlothian. | Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith |
| Pacific Shelf 826 Ltd | Property Development. | Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith |
| **Associates:** | | |
| Lothian Joint Valuation Board | Maintains the electoral, council tax and non-domestic rates registers for the Edinburgh, Midlothian, West Lothian and East Lothian Councils. | The Treasurer, Lothian Joint Valuation Board, Edinburgh Council, Waverly Court, Edinburgh |
| Midlothian Integration Joint Board | Its purpose is to improve the well-being of families, our communities and of people who use health and social care services. The Integration Scheme determines when the Council will have shared responsibility for additional funding with NHS Lothian and is linked to demographic shifts and demand volumes linked to service delivery. | Midlothian Council, Midlothian House, Buccleuch Street, Dalkeith |

**Non-material Interests in Other Entities**

In addition to the organisations outlined above, the Council also has an interest in Seemis Group LLP who provide Scottish Local Authorities with an Education Management System. Midlothian have a 1.90% interest in Seemis. Net assets at 31 March 2020 were £2.318 million, which would equate to a share of £0.044 million for Midlothian.

## Housing Revenue Account (HRA)

The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. The Council charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis which rents are raised, is shown in the Movement on the Housing Revenue Account Statement.

| 2018/19 £000 | HRA Income and Expenditure Statement | | 2019/20 £000 |
|---|---|---|---|
| | *Expenditure* | | |
| 6,040 | Repairs and Maintenance | 6,257 | |
| 5,035 | Supervision and Management | 5,245 | |
| (65,105) | Depreciation, impairment and revaluation non-current assets | (9,063) | |
| 50 | Movement in the allowance for bad debtors | (50) | |
| 2,372 | Other Expenditure | 3,023 | |
| **(51,608)** | **Total Expenditure** | | **5,412** |
| | *Income* | | |
| (27,223) | Gross Dwelling Rents | (28,631) | |
| (356) | Non-dwelling Rents | (360) | |
| (1,158) | Service Charge Income | (837) | |
| (64) | Other Income | (37) | |
| **(28,801)** | **Total Income** | | **(29,865)** |
| **(80,409)** | **Net Expenditure or Income of HRA services as included in the Comprehensive Income and Expenditure Statement** | | **(24,453)** |
| 250 | HRA Share of Corporate and Democratic Core | | 250 |
| **(80,159)** | **Net (Income)/expenditure for HRA Services** | | **(24,203)** |
| | ***HRA share of the operating income and expenditure included in the whole authority Comprehensive Income and Expenditure Statement:*** | | |
| 23 | (Gain) or Loss on sale of HRA non-current assets | | 724 |
| 6,166 | Interest payable and similar charges | | 6,028 |
| (364) | Interest and investment income | | (553) |
| 99 | Net interest on the net defined liability benefit liability (asset) | | 122 |
| **(74,235)** | **(Surplus)/Deficit for the year on HRA Services** | | **(17,882)** |

### Movement in the HRA Statement

| 2018/19 £000 | Movement on the HRA Statement | | 2019/20 £000 |
|---|---|---|---|
| **(33,863)** | ***Balance on the HRA at the end of the previous reporting period*** | | **(39,084)** |
| (74,235) | (Surplus) or deficit for the year on the HRA Income and Expenditure Statement | | (17,882) |
| | ***Adjustments between accounting basis and funding basis under statute:*** | | |
| 65,105 | Depreciation, impairment and revaluation non-current assets | 9,063 | |
| (23) | (Gain) or Loss on sale of HRA non-current assets | (724) | |
| 4,456 | Loans Fund Principal | 4,899 | |
| (524) | Net charges made for retirement benefits in accordance with *IAS 19* | (667) | |
| 69,014 | Total Adjustments between accounting basis and funding basis under statute | | 12,571 |
| **(5,221)** | **(Increase) or Decrease in year on the HRA** | | **(5,311)** |
| **(39,084)** | **Balance on the HRA at the end of the current reporting period** | | **(44,395)** |

## Notes to the Housing Revenue Account

### Housing Stock

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

| 2018/19 | Housing Stock | 2019/20 |
|---|---|---|
| 897 | 1 Bedroom | 908 |
| 3,794 | 2 Bedroom | 3838 |
| 1,835 | 3 Bedroom | 1852 |
| 310 | 4 Bedroom | 311 |
| 10 | 5/6 Bedroom | 10 |
| **6,846** | **Total Housing Stock at 31 March** | **6,919** |

### Other Information

| 2018/19 £000 | Other Information | 2019/20 £000 |
|---|---|---|
| 3,459 | Total Rent Arrears | 3,907 |
| 1,650 | Bad Debt Provision | 1,600 |
| 574 | Void Rent Loss (netted against rental income) | 652 |

## Council Tax Income Account

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

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

The Council Tax Reduction Scheme was introduced in 2013/14 by the Scottish Government. This scheme replaced Council Tax Benefits, with funding being provided through the General Revenue Grant. Prior to 2013/14, funding for Council Tax Benefit was provided by the Department for Works and Pensions (DWP).

| 2018/19 £000 | Council Tax Income Account | 2019/20 £000 |
|---:|---|---:|
| **54,775** | **Gross Council Tax levied and Contributions in Lieu** | **58,547** |
| | Less: | |
| (4,832) | Council Tax Reduction Scheme | (4,810) |
| (5,505) | Other discounts and reductions | (5,855) |
| (1,470) | Write-off of Uncollectable Debts and Allowances for Impairment | (1,573) |
| (42) | Prior year adjustments | 71 |
| **42,926** | **Net Council Tax Income transferred to General Fund** | **46,380** |

**Midlothian Council Tax Charge and Properties per Band**

| 2018/19 Numbers | 2018/19 £ | Band | 2019/20 Numbers | 2019/20 £ |
|---:|---:|---|---:|---:|
| 0 | 713 | A - Disabled | 2 | 747 |
| 564 | 855 | A | 575 | 896 |
| 8,245 | 998 | B | 8,322 | 1,045 |
| 8,332 | 1,140 | C | 8,475 | 1,195 |
| 4,763 | 1,283 | D | 4,891 | 1,344 |
| 4,410 | 1,686 | E | 4,486 | 1,766 |
| 3,344 | 2,085 | F | 3,552 | 2,184 |
| 2,130 | 2,513 | G | 2,271 | 2,632 |
| 169 | 3,143 | H | 169 | 3,293 |
| **31,957** | | | **32,743** | |

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

| 2019/20 | A Disabled | A | B | C | D | E | F | G | H | Total No of Properties |
|---|---|---|---|---|---|---|---|---|---|---|
| Number of Properties | 0 | 979 | 12,549 | 11,033 | 5,617 | 5,030 | 3,759 | 2,405 | 177 | 41,549 |
| Properties subject to Empty Homes Premium | 0 | 13 | 35 | 41 | 16 | 12 | 13 | 9 | 2 | 141 |
| Properties subject to Disabled Relief | 2 | 37 | 39 | (47) | 0 | (2) | (6) | (22) | (1) | 0 |
| **Less:** | | | | | | | | | | |
| Exempt Properties | 0 | 80 | 470 | 280 | 98 | 186 | 50 | 31 | 6 | 1,201 |
| Properties Entitled to 25% Discounts | 0 | 146 | 1,443 | 927 | 396 | 255 | 124 | 66 | 3 | 3,359 |
| Properties Entitled to 50% Discounts | 0 | 1 | 6 | 6 | 2 | 2 | 2 | 2 | 0 | 19 |
| Properties Entitled to Other Discounts | 0 | 4 | 19 | 22 | 10 | 6 | 3 | 3 | 0 | 66 |
| Reduction in Tax Base due to Council Tax Reduction | 0 | 225 | 2,363 | 1,318 | 236 | 106 | 35 | 20 | 0 | 4,303 |
| **Total Equivalent Properties 2019/20** | **2** | **575** | **8,322** | **8,475** | **4,891** | **4,486** | **3,552** | **2,271** | **169** | **32,742** |
| | | | | | | | | | | |
| Ratio to Band D | 0.56 | 0.67 | 0.78 | 0.89 | 1.00 | 1.31 | 1.63 | 1.96 | 2.45 | |
| **Band D Equivalent Properties** | **1** | **383** | **6,473** | **7,533** | **4,891** | **5,894** | **5,771** | **4,448** | **413** | **35,808** |
| Contributions in Lieu - Band D Equivalents | | | | | | | | | | 197 |
| **Sub Total** | | | | | | | | | | **36,005** |
| Less Bad Debt Provision at 3% | | | | | | | | | | (1,171) |
| **Total Council Tax Base** | | | | | | | | | | **34,834** |
| | | | | | | | | | | |
| **2018/19** | | | | | | | | | | |
| **2018/19 Band D Equivalent Properties** | **0** | **376** | **6,413** | **7,406** | **4,763** | **5,794** | **5,434** | **4,172** | **413** | **34,770** |
| Contributions in Lieu - Band D Equivalents | | | | | | | | | | 210 |
| **Sub-Total** | | | | | | | | | | **34,980** |
| Less Bad Debt Provision at 3% | | | | | | | | | | (1,179) |
| **Total Council Tax Base 2018/19** | | | | | | | | | | **33,801** |

## Non-Domestic Rate Account

The Non-domestic Rate Account (Scotland) is a statement that reflects the statutory obligation for billing authorities to maintain a separate non-domestic rate account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

| 2018/19 £000 | Non-Domestic Rate Income Account | 2019/20 £000 |
|---|---|---|
| **43,123** | **Gross Rates levied and Contributions in Lieu** | **43,428** |
| | Less: | |
| (9,500) | Reliefs and other deductions | (10,306) |
| (554) | Write-off of Uncollectable Debts and Allowances for Impairment | (606) |
| **33,069** | **Net Non-Domestic Rates Income** | **32,516** |
| (2,978) | Prior year adjustments | (768) |
| (111) | Non-domestic rates income retained by the authority (BRIS) | (176) |
| **29,980** | **Contribution to Non-Domestic Rate Pool** | **31,572** |
| | **Allocated:** | |
| 30,083 | Contribution to non-domestic rate pool | 31,667 |
| (104) | Council Rate Income - non-pool | (95) |
| **29,979** | | **31,572** |
| 28,115 | Amount distributed to Midlothian Council from non-domestic rate pool | 31,615 |

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

**Net Rateable Value Calculation**

Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Midlothian. The NNDR poundage is determined by the Scottish Government and for 2019/20 was 49p (2018/19 48p) per £ where the rateable value was less than or equal to £29,000 and 51.6p (2018/19 50.6p) per £ where the rateable value exceeded £51,000.

Small Business Bonus Scheme – from 1st April 2017, a ratepayer who occupies or is entitled to occupy one or more non-domestic properties with a combined rateable value of £18,000 or less may be eligible for a discount between 25% and 100% on their bill. In addition, where the cumulative rateable value of a business falls between £18,000 and £35,000, the Scheme will offer 25% relief to individual properties with a rateable value of up to £18,000.

| 2018/19 Numbers | 2018/19 £000 | Analysis of Rateable Values and Number of Premises | 2019/20 Numbers | 2019/20 £000 |
|---|---|---|---|---|
| 1,868 | 48,636 | Shops, Offices and Other Commercial Subjects | 1,864 | 48,911 |
| 951 | 17,288 | Industrial and Freight Transport | 939 | 17,207 |
| 304 | 21,299 | Miscellaneous (Schools etc) | 300 | 21,334 |
| **3,123** | **87,223** | **Total** | **3,103** | **87,452** |

## Glossary of Terms

While much of the terminology used in this report is intended to be self-explanatory, the following additional definitions and interpretation of terms may be of assistance.

**Actuarial Gains and Losses (Pension)**

For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) or the actuarial assumptions have changed.

**Amortisation**

Amortisation is the cost of reducing the value of an intangible asset over its useful economic life. A charge is made against services for the value of the assets they have used during the year.

**Assets**

An asset is any item that has value including cash, investments, properties, vehicles, etc. Assets are classified as current, which will be consumed within the current year, or non-current, which will be used to provide services over more than one year.

**Associate**

An entity other than a subsidiary or joint venture in which the reporting Council has a participating interest and over whose operating and financial policies, the reporting Council is able to exercise significant influence.

**Capital Expenditure**

This is expenditure incurred in creating, acquiring or improving assets where the expenditure is normally financed by borrowing with repayment over a period of years, or by utilising the income from the sale of existing assets.

**Capital Financed from Current Revenue**

This heading covers the costs of creating, acquiring or improving assets where the expenditure is charged directly to the Revenue Account.

**Corporate and Democratic Core**

Corporate and Democratic Core costs include the costs of policymaking and all other Councillor based activities together with costs that relate to the general running of the Council. The Best Value Accounting Code of Practice stipulates that such costs are to be excluded from the "total cost" relating to service activity.

**Community Assets**

Long-term assets that have no determinable useful economic life and are held in perpetuity by the Council, including parks and open spaces.

**Creditors**

Creditors are a kind of liability. They represent payments owed by the Council to another person or organisation for past events.

**Debtors**

Debtors are a kind of asset. They represent payments owed to the Council by another person or organisation for past events.

**Defined Benefit Pension Scheme**

A Defined Benefit Pension Scheme is a scheme where the benefits due to participants are predetermined based on earnings, length of service and age and are not directly dependant on the contributions paid or investment returns realised.

**Depreciation**

Depreciation is the measure of the cost of wearing out, consuming or reducing the useful life of the Council's assets. A charge is made against services for the value of the assets they have used during the year.

**Entity**

A body corporate, partnership, trust, unincorporated association, or statutory body that is delivering a service, or carrying on a trade or business, with or without a view to profit. It should have a separate legal personality and is legally required to prepare its own single-entity accounts.

**Fair Value**

The fair value of an asset or liability is the price at which it could be exchanged or settled in an arm's length transaction between two willing, knowledgeable parties.

**Financial Instrument**

A financial instrument is any contract, which gives rise to a financial asset or liability or an equity instrument in another entity, this includes cash, debtors, creditors, loans, borrowings and shares in other companies.

**Infrastructure Assets**

Non-current assets that cannot be transferred or sold, including roads, bridges and footpaths.

**Inventories**

Inventories are raw materials or goods which have been purchased but which have not yet been consumed in the delivery of Council services.

**Liabilities**

A liability represents a payment owed to another person or organisation including loans, outstanding invoices, provisions, contributions owed to third parties, etc. Short-term liabilities are due to be paid within the current year. Long-term liabilities are amounts that will not be paid until a later year.

**Non-Distributable Costs**

Non Distributable Costs represent costs that cannot be allocated to specific services and again, under the Best Value Accounting Code of Practice, are excluded from the total cost relating to service activity. Examples of Non Distributable Costs are charges for added pension years and early retirement.

**Other Costs**

This heading covers items of expenditure that cannot be accommodated in any of the other categories.

**Provisions**

A provision is a kind of liability. Where a payment for a liability is certain or very likely to occur but the exact amount and timing is not known, an amount must be put aside to meet the estimated future costs.

**Revaluation / Impairment**

Revaluations and impairments are adjustments to the value of an asset, either positively or negatively, to align the carrying value of an asset to an independent assessment of the asset's fair value.

**Revenue Expenditure**

Revenue expenditure includes the day-to-day costs of providing services including salaries and wages, property costs, transport costs and supplies and services. It also includes the costs of the repayment of loans used to finance capital expenditure.