Midlothian

Midlothian Council

Audited

Financial Statements

2017/18

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Management Commentary by the Head of Finance and Integrated Service Support

The Financial Statements present the financial performance of Midlothian Council for the year to 31 March 2018. They are prepared in accordance with the International Financial Reporting Standards (IFRS) based on the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (The Code) and are necessarily technical in places. The management commentary outlines financial performance for the year, the financial outlook and risks and also provides non-financial strategic and contextual information about the Council.

Financial Performance

The Council's financial performance is presented in the Comprehensive Income and Expenditure Account (CIES) on page 34. To show the financial position of the Council it is necessary to adjust the CIES for statutory items that require to be taken into account in determining the General Fund and Housing Revenue Account (HRA) balances for the year. These are shown in the Expenditure and Funding Analysis on page 52, the Movement in Reserves Statement on page 36 and in more detail in note 6 on page 56.

General Fund

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. The General Fund is funded by government grants, fees and charges, council tax income, non-domestic rates income and interest / returns on investments and is split between uncommitted balances, which are held to manage financial risks and unplanned expenditure, and balances which have been earmarked for specific purposes.

The outturn position for the General Fund compared to budget in 2017/18 is shown in the table on the following page. Full details were reported to Midlothian Council on 26th June 2018 and are available on the Council's website.

These annual accounts incorporate the "Telling the Story" presentational changes included in the 2016/17 local authority code of practice and include an Expenditure and Funding Analysis (EFA) on page 52. The EFA provides the link between the council's budget monitoring reports and the figures in the main financial statements. The section entitled "Building the Expenditure and Funding Analysis" has been included to assist users of the accounts in navigating from the budget outturn report through to the first column of the EFA and the CIES on page 34.

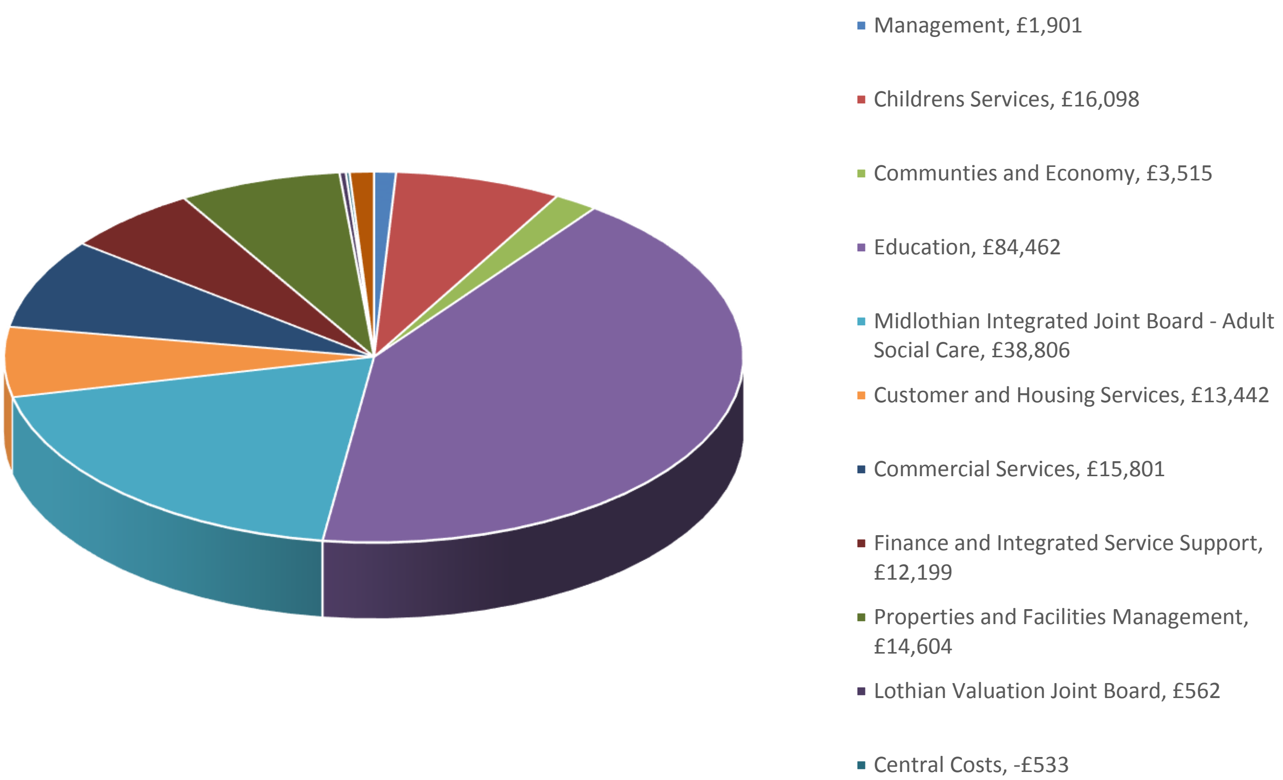
Midlothian Council Budget Monitoring				Building the Expenditure and Funding Analysis		
Service Area	**Budget**	**Net Expenditure**	**(Under) / Overspend**	**Budget Monitoring Net Expenditure**	**Adjustments between Council budget monitoring reports and statutory accounting requirement**	**Net expenditure chargeable to General Fund and HRA balances**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Management	1,918	1,901	-17	1,901	-44	1,857
Children's Services	14,675	16,098	1,423	16,098	0	16,098
Communities and Economy	3,861	3,515	-346	3,515	0	3,515
Education	84,658	84,462	-196	84,462	-6,584	77,878
Adult Social Care	38,806	38,806	0	38,806	0	38,806
Customer and Housing Services	12,275	13,442	1,167	13,442	-6,788	6,654
Commercial Services	15,881	15,801	-80	15,801	0	15,801
Finance and Integrated Service Support	11,899	12,199	300	12,199	-1,218	10,981
Properties and Facilities Management	14,295	14,604	309	14,604	-286	14,318
Lothian Valuation Joint Board	555	562	7	562	0	562
Central costs	-319	-533	-214	-533	0	-533
Non-distributable costs	2,136	2,075	-61	2,075	0	2,075
Loan charges	7,408	6,244	-1,164	6,244	15,615	21,859
Investment Income	-301	-371	-70	-371	0	-371
Transformation programme savings targets	-830	0	830	0	0	0
Allocations to HRA, Capital Account etc.	-4,782	-4,829	-47	-4,829	4,829	0
HRA	0	0	0	0	-14,461	-14,461
Net General Fund Expenditure	**202,135**	**203,976**	**1,841**	**203,976**	**-8,937**	**195,039**
Less Funding:						
Scottish Government Grant	150,879	151,645	-766	151,645	-68	151,577
Council Tax Income	45,004	45,457	-453	45,457	-4,759	40,698
General Fund Utilisation of Reserves	**6,252**	**6,874**	**622**	**6,874**	**-4,110**	**2,764**

The most significant factors which led to the variance from the budget were high levels of demand pressures within Children's Services, particularly for secure placements, residential placements, respite care and direct payments, these contributed to an overspend of £1.423 million. Within Customer and Housing Services there was an overspend of £0.548 million on homelessness accommodation mainly resulting from a delay to the opening of Pentland House by the service to meet demand and realise planned savings. Additional costs of £0.686 million were incurred in dealing with the exceptionally severe winter. There was also an overspend of £0.904 million resulting from the council's housing benefit overpayment debtor being overstated on the balance sheet, this expense required to be written off to the revenue account in the year. These contributed towards the services' net overspend of £1.167 million. There was also a shortfall in the achievement of transformation savings targets totalling £0.830 million. This figure is further broken down into Integrated Service Support savings of £0.266 million, procurement activity savings of £0.175 million, savings resulting from tactical reductions in contracted hours of £0.150 million and Customer Services savings of £0.239 million.

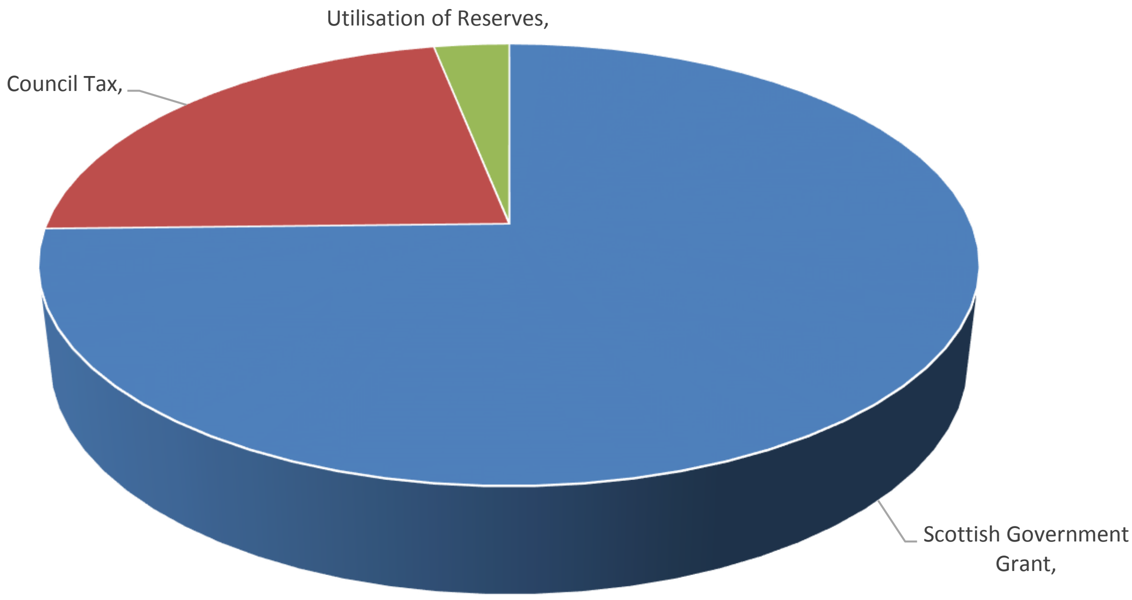
The Council revised its methodology for apportioning the interest costs associated with external borrowing between General Fund and HRA within its existing accounting policies to better reflect certainty associated with longer term borrowing to finance new council housing and investment in the existing stock relative to investment in other General Fund assets. This has resulted in a considerably reduced cost to General Fund. Additionally there was more slippage in capital programmes than anticipated in the budget for loan charges and borrowing took place at rates lower than anticipated. These factors resulted in an underspend on the Loan Charges budget of £1.164 million.

Actual net service expenditure for the year as set out in the budget monitoring report was £203.976 million representing 100.91% of the £202.135 million budget. General Fund services showed a net overspend against budget of £0.622 million. Funding through council tax was £0.453 million more than budgeted. The sustained increase in housing in Midlothian outstripped the level of council tax income growth built into budgets.

Graph 1 - 2017/18 Net Expenditure by Council Service £'000



Graph 2 - 2017/18 General Fund Revenue £'000



The General Fund reserve at the start of the year was £17.651 million, of which £9.094 million was earmarked for specific purposes in 2017/18. The position at 31st March 2018 is a reserve of £10.777 million of which £6.440 million was earmarked for specific purposes leaving £4.337 million. The Council's targeted level of minimum uncommitted reserve is between £4 million and £8 million which equates to between approximately 2% and 4% of net expenditure.

The earmarked element of the reserve includes budgets provided for specific purposes where spend has slipped into 2018/19 of £3.244 million, budgets for schools in accordance with the Scheme of Devolved School Management of £1.181 million and funding set aside to support the Council Transformation Programme of £2.015 million.

In line with previous Council decisions a number of specific initiatives were funded from earmarked reserves during the year including staff severance costs (£2.283 million) and a contribution towards establishing a digital centre of excellence (£0.056 million).

Housing Revenue Account

The Council has a statutory obligation to maintain a revenue account for its housing provision in accordance with the Housing (Scotland) Act 1987. The HRA records all income and expenditure relating to the Council's own housing stock. Revenue expenditure on housing management, repairs and maintenance is funded from rent paid by tenants.

The HRA showed a surplus of £4.110 million in 2017/18 and this increased the reserve to £33.863 million. There was an underspend of £0.515 million against budget mainly due to continuous capital investment in existing stock resulting in a decrease in spend on reactive repairs.

The council has an ambitious capital investment plan which currently runs to 2032/33 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 the 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. Since 2007 Midlothian Council has built 1,065 new council homes.

In 2017/18 £3.9 million was invested in new council houses and £4.7 million on SHQS improvement works. In the period to 31 March 2022 it is planned to invest a further £172 million on new council houses and £31.8 million on SHQS improvements.

Capital

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. The Council spent £16.9 million in 2017/18. This included £8.1 million on the school estate, £2.4 million on roads, pavements and street lighting, £1.5 million on replacing and upgrading the Council's fleet, £1.5 million on digital assets and £1.4 million on centralised property upgrades. This expenditure was funded by a combination of government grants, external funding contributions from third parties, capital receipts, Section 75 developer contributions and borrowing. A full analysis of capital expenditure and financing is provided in note 31 to the financial statements.

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

A revision to the 2011 Treasury Management Code has been published. It is titled “Treasury Management in the Public Services: code of practice and cross-sectoral guidance notes” and will apply from financial year 2018/19. The main changes include extension of the code to non-financial instruments that currently sit out with the Treasury function and clarification on governance arrangements.

The Capital Financing Requirement represents the Council’s underlying need to borrow for capital expenditure. It is not allowed to rise indefinitely and statutory controls exist to ensure debt is affordable and repaid over a reasonable timeframe. The Council’s underlying need to borrow for 2017/18 at the time the budget was set was £319.163 million. The actual position was £280.248 million with total debt at 31st March 2018 of £241.031 million demonstrating 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.

During the year the Council’s aggregate external debt was contained within both the operational boundary and the authorised limit. The authorised limit of £482.021 million for 2017/18 reflects a level of debt which could be affordable in the short term but may not be sustainable in the long term. The operational boundary of £318.647 million for 2017/18 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 that is allocated to the financing of capital expenditure and highlights the trend in this allocation through financial years. Actual figures for General Services were 3.25% which is in line with approved strategy and 38.24% for HRA which is reflected in long term HRA financial plans to 2032/33.

The General Services 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 & 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 & new primary school facilities in the county. There will also be capital investment to complement the new Design, Build, Finance & Maintain (DBFM) projects for the Newbattle Centre and the 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. Investment in the construction of a new depot to replace the existing Stobhill depot and Council office accommodation is also scheduled in the medium term.

Long-term Borrowing

The council borrowed money throughout the year to meet actual and anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. At 31st March 2018 long term borrowing amounted to £218.176 million which is a £9.360 million increase from the position at 31st March 2017. During 2017/18 new long term borrowing of £10.000 million was taken from the Public Works Loans Board (PWLB) and £10.000 million from a forward starting deal from Deutsche Pfandbriefbank. Interest rates on new borrowing remained at historically low rates. The average rate of interest paid on all external debt increased marginally to 3.37% in 2017/18 from 3.32% in 2016/17. The internal loans fund rate decreased from 3.24% in 2016/17 (lowest in mainland Scotland) to 3.08% in 2017/18 and 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 the PWLB. Further details are provided in note 16 to the Financial Statements.

Assets and Liabilities

The Balance Sheet on page 38 summarises the Council's assets and liabilities as at 31st March 2018. Total net assets increased by £23.233 million from the position at 31st March 2017.

Long term assets decreased in value by £14.674 million mainly due to downward revaluations and the disposal of assets. Short term investments stayed at a similar level and cash and cash equivalents decreased in value by £2.008 million

The net pension liability of the Council as at 31st March 2018 was calculated in accordance with the requirements of International Accounting Standard 19 (IAS 19) and amounts to £85.513 million which is a decrease of £32.529 million from 31st March 2017. The main reason for this is the result of an increase in the net discount rate used in calculating the projected liability over the period. IAS 19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future. It should be noted this is a snapshot of the position at 31st March 2018. The 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 31st March 2017 showed a funding level of 98% of liabilities which is a 5% increase from the position at the previous valuation at 31st 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 Financial Strategy.

The Council has made provisions for potential liabilities in respect of unsettled insurance claims of £0.940 million and staff release costs agreed at the 31st of March 2018 of £0.853 million.

The provision for non-collection of debt at 31st March 2018 was £35.4 million which is a slight increase on the position a year ago. There were a number of immaterial write offs approved by Cabinet during the year.

Financial Outlook and Key Risks

The current economic climate impacts on the Council and the services it provides in a number of ways. From a financial perspective 2017/18 saw continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care and the significant population growth in Midlothian. It is expected that these pressures will grow and they 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 impact on the council budgets but also change the way services are provided.

The Council has a medium term financial strategy which currently extends to 2022/23. Cost projections for pay inflation, price inflation and the impact of demographic changes are reflected in the strategy along with income projections and the impact of the Council's change programme which will be the means to address budget shortfalls. Pay inflation and Scottish Government Grant income projections are critical areas of modelling given their overall significance and uncertainty.

For 2017/18 and again for 2018/19 the Scottish Government published a one year budget and grant settlement, as such Councils are currently unaware of the level of funding that will be available to them beyond 2018/19. There are a number of factors which will influence the level of grant support Council might expect for 2019/20 and beyond. Among these will be a range of economic factors 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 the economic factors can be made at this time based on the information available from the Office of Budget Responsibility, the Scottish Fiscal Commission and for the 2019/20 budget process Scotland’s Fiscal Outlook, the Scottish Government’s first five year medium term financial strategy, the impact of Scottish Government’s tax and spending priorities will only become fully apparent when the Scottish Government’s 2019/20 budget is published in December 2018.

In February 2018 the Council set a budget for 2018/19 which included savings of £11.559 million, increases in council tax funding of £1.274 million and a £0.200 million contribution to earmarked reserves.

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 remaining budget gap of £5.054 million in 2019/20 rising to £23.002 million by 2022/23.

The Council continues to seek to work within approved Financial Strategies. Despite slippage in achieving savings targets the Council’s transformation plan continues to deliver efficiencies and is regularly refreshed to ensure its scope and ambition remains focused and is in line with corporate aims.

Strategic Plans and Performance

Midlothian Council delivers its priorities through the Community Planning Partnership and the Single Midlothian Plan. Community Planning partners have agreed the vision for Midlothian as “Midlothian – a great place to grow”.

Taking into consideration the comparative quality of life of people living in Midlothian, it is clear that less well-off residents experience poorer health, have fewer or no choices in how they use low incomes and also that there is a proven relationship between these factors and their learning. The top three priorities for 2016-19 and selected key performance measures for 2017/18 are:

Reducing the gap in learning outcomes

- Average primary school attendance was 94.47%, down slightly from 95% in 2016/17 and against a target of 96.5%.
- Average secondary school attendance was 89.39%, down slightly from 90.24% in 2016/17 and against a target of 92%.
- There were 373 exclusions from school, down from 419 in 2016/17 and against a target of 409.
- The percentage of Midlothian residents with no qualifications was 6.4% which is unchanged from 2016/17 and is against a target of 7%.

Reducing the gap in health outcomes

- 237 mental health assessments were carried out through the Gateway pilot project in 2017/18 (395 in 2016/17), against a target of 200.
- The percentage uptake of 27-30 month checks was 88.2% against a target of 86.7% and 84.6% in 2016/17.

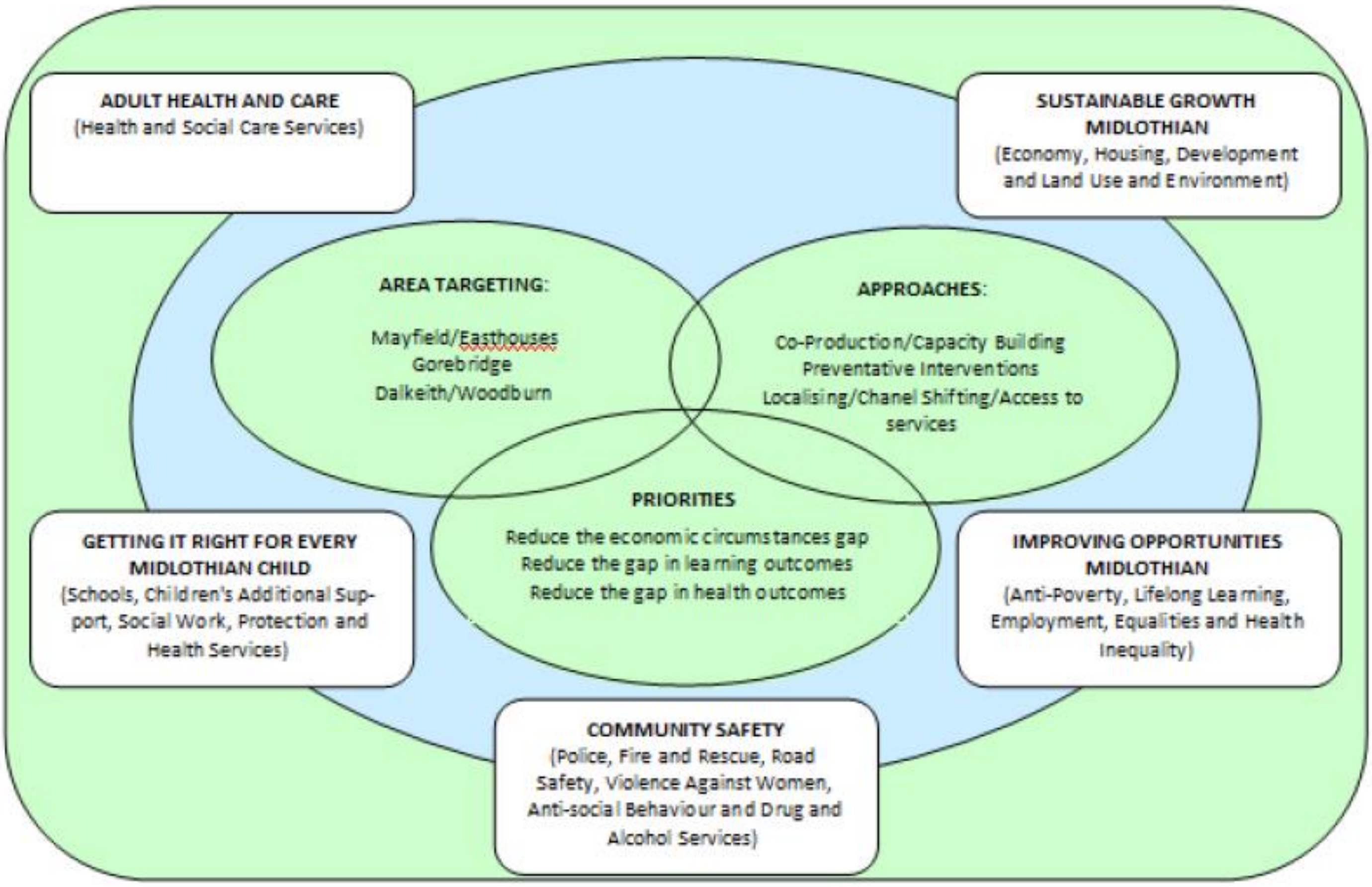
Reducing the gap in economic circumstances

- The percentage of school leavers securing a positive destination was 95% against a target of 95% and 95.1% in 2016/17.
- Midlothian Citizen Advice Bureaux delivered income maximisation of £3.7 million against a target of £2.5 million and £3.8 million in 2016/17.
- The percentage of young people working with the Homeless Prevention Service that went on to present as homeless was 65% against a target of 95% and 33% in 2016/17 (Despite the percentage of young people who went on to present as homeless, overall there has been a reduction in the number of households being assessed as homeless).
- 114 new homes completed against a target of 165 and 80 in 2016/17.

Three approaches to how the Council works with its communities have also previously been agreed – preventative intervention, co-production and capacity building and localising / modernising access to services.

In addition to the three key priorities and three approaches the Council will also focus on reducing the gap between outcomes for residents living in parts of the county which for many years have shown a significant gap between their outcomes and the average outcomes for Midlothian and Scotland as a whole. The areas targeted are Dalkeith Central/Woodburn; Mayfield/Easthouses and Gorebridge.

The Single Midlothian Plan incorporates five overarching thematic groups which support the achievement of outcomes. The interplay is shown in the diagram below.



The thematic approach is used for quarterly performance reporting and the themes and selected performance measures for 2016/17 are discussed below.

Adult Health Care – Responding to growing demand for the adult social care and health services;

- The percentage or people who say they are able to look after their health or who say they are as well as they can be was 86% compared to 83% in 2016/17 and against a target of 83%.
- The percentage of falls which resulted in hospital admission for clients aged 65+ was 3.87% compared to 5.03% in 2016/17 and a target of 6%.
- The percentage of people who say that they have a say in the way their care is provided was 81.7% compared to 78% in 2016/17 and against a target of 75%.

Community Safety – Ensuring Midlothian is a safe place to live, work and grow up in;

- The proportion of MAPPA clients convicted of a Group 1 or Group 2 offence was 5.3% against a target of 2% (No previous data is captured for comparison).
- The percentage of street light repairs completed within 7 days was 90.6% compared with 98.5% in 2016/17 and against a target of 100%.

Getting it Right for Every Midlothian Child – Improving outcomes for children, young people and their families;

- The number of children adopted was 10 compared with 11 in 2016/17 (Data only indicator, no target set).
- The number of children in residential placements was 8 compared with 10 in 2016/17 (Data only indicator, no target set).

Improving Opportunities for People in Midlothian – Creating opportunities for all and reducing inequalities;

- The number of activities offered by Ageing Well programmes was 23 compared to a target of 16 and 23 in 2016/17.
- The Tonezone retention rate was 49.25% compared with a target of 55% and 55.25% in 2016/17.

Sustainable Growth and Housing – Growing the local economy by supporting business growth and responding to growing demand for housing in a sustainable environment.

- The percentage of premises with access to next generation broadband was 98.1% compared with a target of 98% and 98.1% in 2016/17.
- The street cleanliness score was 100% compared with a target of 97.5% and 98.7% in 2016/17.

During 2017/18 the Council demonstrated significant progress towards their priorities and this is documented in more detail in the Midlothian Council Annual Performance Report – 2017/18, presented to Performance Review and Scrutiny Committee on 5th June 2018 and can be viewed on the Council website.

Key Achievements include:

Adult Health Care -

- The creation of a new Health and Care Partnership provides an opportunity to make significant change in how we deliver health and care services.
- Newbyres care home has introduced 24 specialist dementia beds in order to provide a long term, homely setting for people with a diagnosis of dementia who are no longer able to live independently in their own home or who have been delayed from leaving a hospital setting.
- The Grassy Riggs project in Woodburn has opened and features a daily drop-in cafe for older people living in the Dalkeith/Woodburn area who are at risk from the adverse effects of social isolation and loneliness.
- Work is continuing to embed Self Directed Support into a 'business as usual' activity.

Community Safety -

- The new structure for Community Justice came into being on 31st March 2017 and local partnerships now report to the national body, Community Justice Scotland.
- The Serious & Organised Crime Integrity Group has been established for Midlothian with a range of partners. The group will focus on the principles of the national agenda to deter, disrupt, divert and deter criminality and potential areas of activity. A parallel Prevent Strategy group is also focussed on the counter terrorism agenda.
- The council have completed the identified footway and road improvement programme thereby maintaining the road network in a steady state position with no deterioration for the last five years.
- As part of the drive towards lowering carbon emissions and reducing the consequent energy use, the programme to deliver LED lights across Midlothian has continued with a further 400 lights replaced during the year.

Getting it right for every Midlothian child -

- Midlothian Council were successful in winning the 'Policy Development Award' for the 'Framework for Permanence' at the Scottish Public Service Awards.
- Over the past year we have increased our current foster care numbers by 12.5% from 56 in to 63.
- Attainment in 2016 is now above both the virtual and the national average with attainment at level 5 in 2016 being more than double the percentage achieved in 2014.

Improving Opportunities for People in Midlothian -

- A number of projects and initiatives have been delivered across Midlothian, many of which are as a result of having identified and secured significant third party funding. This has included work for example in Auld Gala park in Gorebridge, new play equipment in various schools and play groups as part of the play strategy.
- Midlothian's Learning and Development in its Communities Service received a 'very good' rating; its best ever following inspection by Education Scotland.
- Delivery of a Scottish Government funded Participatory Budgeting project in Mayfield/Easthouses, at which 350 residents decided on the allocation of £30,000 amongst 17 locally based community projects.

- Kings Park and Strathesk primary schools were recognised with the prestigious SportScotland Gold School Sport Award, which is designed to encourage continuous improvement in physical education and sport, run by the Active School team.
- Substantial funding allocated by the Borders Rail Blueprint Fund to promote and develop the tourism sector along the route of the Borders Rail corridor.
- Homelessness presentations in Midlothian have reduced in the past year to continue that position over the past 3 years, which is now against the regional trend and results from the homeless prevention work and housing options developed.

Sustainable Growth and Housing -

- The Right to Buy policy in Scotland ended on 1 August, 2016. The introduction of the policy saw a significant reduction in the availability of affordable rented housing in Midlothian resulting in the commencement of a Social Housing Programme for new build housing with the initial developments delivered from 2006 and this year developments were completed and allocated to tenants in Penicuik, Loanhead and Bonnyrigg.
- We have achieved green flags status in five of our parks.
- As part of a unique partnership arrangement with City of Edinburgh Council the construction and commissioning of a food waste reprocessing plant has been completed on the jointly owned site at Millerhill.
- Midlothian achieved its highest level of recycling to date of 53.8% in 2016.
- As part of the agenda to drive down carbon emissions, the Council has installed new electric vehicle charging points across Midlothian, as well as taking delivery of seven new electric vehicles.

Structure of Council Leadership and Council Staff

Following the local government elections on the 4th of May 2017 the political makeup of the Council was 7 Labour members, 6 SNP members and 5 Scottish Conservative and Unionist members. The Labour party formed and continues to form a minority administration. The Leader of the Council is Derek Milligan and the Provost was Adam Montgomery until his death on the 10th of January 2018. There was a by-election in Penicuik on Thursday 22nd of March 2018 which was won by the SNP. The political makeup of the Council subsequently changed to 6 Labour members, 7 SNP members and 5 Scottish Conservative and Unionist members.

The Council's Chief Executive was Kenneth Lawrie until the 31st of July, Dr Grace Vickers took on the post from the 1st of August. The Council is structured into 3 Directorates:

- Health and Social Care (Director, Allister Short);
- Resources (Director, John Blair);
- Education, Communities and Economy (Director, Mary Smith).

Emerging Issues, Service Changes and Future Developments

Moving into 2018/19 and beyond the Council will continue the application of the Delivering Excellence framework – A programme for change which looks at how we do things, with a focus on improving outcomes for our residents and our communities within the context of the financial and other challenges ahead. To do this, we consider:

- What our priorities are;
- What we can change or do differently;

- Which services can be improved;
- Which services we can stop.

Employee engagement and empowerment is at the core of the Delivering Excellence framework with every council service being asked to look at what it does, how much it costs, how it performs and how it could be changed and improved. A key element of the framework is how we engage with our communities to inform and support changing the way we do things at Midlothian Council and ensure that services are fit for the future. We want residents to tell us what the priorities are for them, their families and their communities - and we want them to help us reshape our services to meet those priorities. The Single Midlothian Plan is developed by and with partners and informed by input via the citizens panel, community councils, neighbourhood plans and the Midlothian profile exercise which is refreshed annually.

Health and Social Care Integration continues to move forward with consultation on the 2018/19 Directions document issued to NHS Lothian and the Council and work on a refreshed strategic plan is underway. Two Heads of Service with responsibility for Primary Care and Older People and Adult Services now manage services across health and social care, integration at a service level is progressing well. There is a continuing requirement to rebalance care to meet growing demand, particularly in relation to older people and those with complex needs. The integration of budgets through the establishment of the Integration Joint Board provides an opportunity to make better use of collective resources.

The preparations for the implementation of the delivery of 1,140 hours of early years education and childcare by 2020 are ongoing. Whilst challenging this remains a key focus, Midlothian Council has been successful in receiving funding from the Scottish Government to carry out a trial to develop a blended approach to expansion in the Mayfield area. The new Woodburn Hub was recently recognised as demonstrating good practice in the recently published Scottish Government report “A blueprint for 2020”.

The Scottish Child Abuse Inquiry is a significant piece of work with a project team in place to deal with requests for information and a working group is now in place to write new protocols/ policies around how we manage any potential future claims. A significant amount of time and resources are being deployed at this time to ensure that Midlothian Council complies with the requests for information within the agreed time scales and responds to the implications of the enactment of the Limitation (Childhood Abuse) (Scotland) Act 2017.

The implications of Brexit for the Council in terms of potential changes to procurement, data protection, planning, environmental legislation, employment law and grant funding are being actively considered. The Council’s strategic risk register includes some initial analysis of the potential impact on the Council from the triggering of Article 50, this will clarify as negotiations progress at a UK level and the final agreement is reached.

Following serious allegations being raised by members of staff regarding suspected impropriety within the Council relating to Roads contract management arrangements an investigation of the allegations was instigated and conducted by the Council’s Internal Audit and Corporate Fraud team. The matter has also been passed to Police Scotland. During the Council investigation, it was discovered that payments had been made to a contractor not on the Procurement Framework and these amounted to £2.1 million including VAT over a period of seven years, £1.749 million excluding VAT. Of this £0.682 million was in respect of capital works and £1.067 million was revenue works. No allegations were made relating to work not being carried out or subject to inflated invoices. A detailed investigation has commenced looking at each invoice from initiation of order through to payment. Different methodologies are being developed in consultation with EY to examine capital and revenue payments and the evidence of loss for each category of work, if any.

To date there is no evidence that the actual works were not carried out. At this time there is no indication of a material misstatement of the financial statements.

The construction of the new Newbattle Community Campus commenced in January 2016 and opened in May 2018 as the Council's first centre of excellence in digital technology. This new facility provides enhanced educational and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities. New primary schools in Roslin and Loanhead were opened in August 2017. The photographs below show the old school, the work in progress and the newly completed school.

Conclusion

2017/18 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 the essential infrastructure to support the growing population. Despite the financial problems the council made significant improvements across a range of areas especially the integration of health and social care and pupil attainment and was successful in being shortlisted for the Living Wage Champion Awards for the review of pay and grading implemented in 2016. Very significant financial and service challenges lie ahead and work continues to prepare for these and to deliver a Financial Strategy that ensures the Council's financial sustainability.

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

Signed:

Gary Fairley

Head of Finance and Integrated Service Support

Date:

Statement of Responsibilities for the Financial Statements

This sets out the respective responsibilities of the Council and the Head of Finance and Integrated Service Support (Chief Finance Officer).

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 Head of Finance and Integrated Service Support;
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- To approve the Statement of Accounts.

I confirm that these Annual Accounts were approved for signature by Midlothian Council Audit Committee at its meeting on the 25th of September 2018.

Signed on behalf of Midlothian Council

Councillor Derek Milligan

Date:

The Head of Finance and Integrated Service Support's Responsibilities

The Head of Finance and Integrated Service Support is responsible for the preparation of the Council's statement of accounts in accordance with proper practices as required by legislation and as set out in the IFRS Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Head of Finance and Integrated Service Support has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with Legislation;
- Complied with the Code (in so far as it is compatible with legislation), except where stated in the policies and disclosure notes.

The Head of Finance and Integrated Service Support has also:

- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

These Financial Statements present a true and fair view of the financial position of the Council and its group at 31 March 2018 and its income and expenditure for the year then ended.

Signed:

Gary Fairley

Head of Finance and Integrated Service Support

Date:

Annual Governance Statement

Midlothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. This is to allow public funds and the assets at its disposal to be safeguarded and used efficiently and effectively in pursuit of best value.

Elected Members and senior management are responsible for the governance of the business affairs of Midlothian Council. This includes setting the strategic direction, vision, culture and values of the Council and establishing appropriate and cost effective systems, processes and internal controls to allow the strategic objectives to be delivered.

The Council's decision making and scrutiny is carried out through the Council and Committee structure and within the framework of Standing Orders. The Standing Orders are made up of:-

- Standing Orders which regulate the manner in which the Council, Cabinet, Committee and other meetings (both statutory and non-statutory are arranged, convened and governed
- Scheme of Delegation to Officials setting out the responsibilities and powers allocated to senior officers
- Scheme of Administration containing the remits and powers of all the bodies in the Council structure in which elected members are involved
- Procurement Strategy 2015-18 and associated procurement procedures which govern the Council's procurement activity; and
- Financial regulations which set the rules and procedures which set the rules for financial, budget and treasury management.

All these documents are subject to review at least once in each administrative term but in practice are reviewed and refreshed on a more frequent basis as circumstances require. The Standing Orders were amended on 17 December 2017 and the Procurement Strategy 2018 – 23 was approved by the Council on 21 August 2018.

The Council has a well-established framework of cabinet, committees and associated bodies. The various bodies, their remits and powers are set out in the Scheme of Administration which is part of the Council's Standing Orders. This structure is supported by a complementary Scheme of Delegation to officers which sets out the responsibilities and decision making powers the Council has delegated to officers, the scheme of Delegation is also part of Standing Orders.

The system of internal financial control is designed to provide assurance on the effectiveness and efficiency of operations and the reliability of financial reporting. In this regard, reports on financial monitoring, the Housing Revenue Account and the General Services Capital Plan are presented to the full Council on a quarterly basis.

The Council's current Risk Management approach is set out within the Risk Management Policy, this was formally approved in 2013 and is currently subject to review. The Policy is supported by the Risk Management Group and Risk Manager, who oversee the operation of the Council's Risk Management Framework and support officers to manage risk in line with the Council's framework. On a quarterly basis the Council Strategic Risk Profile is reviewed with direct input from all Heads of Service. The Strategic Risk Profile, consisting of those Strategic Risks, Current Issues and Opportunities, is reported to the Council Management Team (CMT) along with details of any action being taken to reduce/manage specific risk or exploit opportunities. Once approved by CMT the Strategic Risk Profile report is submitted to Audit Committee who provide scrutiny in the management of the risks recorded in the Strategic Risk Profile.

In order to support and achieve good governance, the Council has developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives' (SOLACE) framework and guidance on Delivering Good Governance in Local Government: Framework (2016). The Code has been reviewed and updated in line with the new International Framework of Good Governance in the Public Sector which was implemented on 1 April 2017. The Council also has a number of officials in statutory posts who monitor governance and the supporting processes during the year. These are the Head of the Paid Service, the Monitoring Officer, the Chief Finance Officer, the Chief Social Work Officer and the Chief Education Officer.

The Code of Corporate Governance adopts the seven overarching principles from the Framework which are:

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

Each of the principles is broken down into sub-principles and then separate elements to allow a more focused approach to the components of each. In line with previous practice an exercise to assess the Council's adherence to the required standards forms part of the annual Internal Audit plans with any areas for concern identified for further action. Given the transition to the new Code the assessment for 2017/18 will be different to those used in recent years but careful analysis will still be able to identify any trends or long-term issues.

Midlothian Council's financial management arrangements conform to the requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government. The Chief Financial Officer has overall responsibility for the Council's financial arrangements and is professionally qualified and suitably experienced to lead the Council's finance function.

The Council is responsible for conducting, each financial year, a review of the effectiveness of its governance framework, including risk management and the systems for internal control and financial control. The review of the effectiveness of the Council's governance framework is informed by:

- The work of the Corporate Management Team;
- The work of Council managers and Financial Services staff;
- The annual assurance questionnaires that are provided by all Heads of Service;
- Corporate and Service Risk Registers which are subject to regular review
- An annual review, by Internal Audit, of compliance with the Council's Local Code of Corporate Governance;
- The Chief Internal Auditor's annual assurance report which is based on internal audit reports from across the range of Council services;
- Reports from the Council's external auditor; and

- Reports from other external review bodies, agencies and inspectorates.

The key governance arrangements and controls are set out in the local Code of Corporate Governance. Each year, using an assurance template, Internal Audit samples elements in the code to determine whether these are working effectively and that therefore the governance framework is working effectively.

In addition each Head of Service is required to undertake an annual self assessment of their area of responsibility using an assurance template where key elements of governance are examined.

None of these assessments highlighted any issues that would impact on the level of effectiveness of the Council's governance framework. Improvements identified are noted below in the action plan.

It should be noted that an unplanned investigation is currently being undertaken by Internal Audit with external support. The investigation has not yet concluded however necessary improvements to internal control, risk management and governance have been identified and are referred to in this Statement. It is accepted that further such improvements may be recommended at the conclusion of the investigation and any such improvements will also be implemented. Those improvements that have been identified to date are highlighted in the table of improvements to the governance framework to be progressed in 2018/19 below.

The statement has also been informed by the work undertaken by Internal Audit. The Chief Internal Auditor's overall Audit Opinion for the Annual Governance Statement is included within the Internal Audit Annual Assurance Report for 2017/18 and concludes that overall the Council's framework of governance, risk management and internal control over the period 2017/18 are generally adequate but noted some areas of non-compliance and a lack of evidence of Management monitoring therefore noting that improvements are required to the second line of defence across the Council to ensure probity in systems and operations, including the prevention, detection and resolution of fraud irregularities. Where there is evidence of financial loss to the Council due to these irregularities, appropriate action will be taken to seek to reclaim the funds. Improvements in internal control, risk management and governance have been agreed by Management as highlighted in Internal Audit reports and recommendations made during the year or outstanding from previous years.

The range and breadth of Internal Audit work that has been performed during 2017/18 is sufficient to inform the Internal Audit assurance on the systems of internal control, governance arrangements and risk management.

The programme of Internal Audit work planned for 2017/18 was significantly impacted by resource changes introduced following the Internal Audit Service Review and the deployment of Internal Audit and Counter Fraud resources to an unplanned investigation.

The Chief Internal Auditor has responsibility for the Council's Internal Audit function and reports functionally to the Audit Committee and operationally to the Chief Executive to allow appropriate independence. There have been no threats to the independence of the internal audit activity during the period.

The Chief Internal Auditor is professionally qualified and suitably experienced to lead and direct the Internal Audit team.

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment be conducted at least once every 5 years by a qualified, independent assessor from outside the organisation over the level of compliance against PSIAS by the Internal Audit Section. An internal self-assessment of Internal Audit practices against the Standards was carried out in 2017/18, as required by the PSIAS, which has indicated Internal Audit conforms with the Definition of Internal Auditing, Code of Ethics, Attribute Standards and Performance Standards. An External Quality Assessment (EQA) Peer Review by Highland Council was carried out in March 2018. The full report is awaited though verbal feedback indicates conformance with the PSIAS against the 13 Assessment Areas and has highlighted a few areas where improvements can be made.

A number of risks were effectively managed in 2017/18 and Midlothian Council continues to support the Integration Joint Board with its approach to risk management.

The following table sets out improvements to the governance framework progressed in 2017/18. Where these have not been completed or subsequent matters have arisen through the Roads Investigation, the improvements have been carried on into 2018/19.

Area for Improvement identified in 2016/17	**Action undertaken in 2017/18**	**Status**
Code of Corporate Governance	Midlothian Council's Code of Corporate Governance has been updated approved by Council in December 2017.	Complete
Workforce Plans	A corporate Workforce Strategy was approved by Council in December 2017 and is supported by a detailed workforce plan and eight service specific workforce plans.	Ongoing
Post Project Implementation Reviews	Although end of project post implementation reviews are completed for some projects, these are required to be completed for all projects. This continues to be an area for further improvement.	Ongoing
Business Continuity Policy	In November 2017 the Corporate Management Team approved the Business Continuity Policy as Phase 1 of a Business Continuity Management System and the development of supporting arrangements to provide a consistent approach across the organisation.	Ongoing
Register of Interests	A Register of Interests for senior Council Officials has been established.	Completed
Gifts and Hospitality	A standalone Gifts and Hospitality policy requires to be developed.	Carried forward to 2018/19
Internal Audit Plan	The Internal Audit Plan for 2017/18 was presented to Audit Committee in March 2017.	Completed

The following table sets out improvements to the governance framework which are to be progressed in 2018/19. Where areas have been identified specifically through the Roads Investigation, the reason for the necessary improvement has been noted.

Area for Improvement	Proposed Action in 2018/19
Ensure there are sufficient Contract Management Procedures and Controls in place to prevent unauthorised payments. During the investigation, it became apparent payments had been made to a non-contracted supplier	Review contract management procedures and controls ensuring that there are adequate segregation of duties and oversight / checking of compliance with the contract by Senior Management. Review the roles and responsibilities of Senior Managers to ensure an adequate understanding, awareness and accountability for day-to-day activities undertaken in their areas of responsibility.
Ensuring effective counter fraud and anti-corruption measures are in place Whistle-blowing allegations have been received relating to Council employees being too close to contractors.	Provide regular training to all staff to promote an understanding and awareness of the implications of the Bribery Act 2010, potential corruption in the workplace and the Council's policy on Bribery & Corruption, and client/contractor relationships. Instruct Staff involved in tendering contracts and allocating work to Contractors to read and acknowledge the Council's policies on Bribery & Corruption and Gifts & Hospitality. Review and promote the Council's Whistleblowing policy and the mechanisms for raising concerns, anonymously if desired, for Staff and Public
Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated	Review and update policies across the Council including: Code of Conduct, the creation of a standalone Gifts and Hospitality Policy, Gifts and Hospitality Register, Register of Interests (to record and manage potential Conflict of Interests), and Secondary Employment. This should include appropriate authorisations (approvals and refusals) and the central recording of declarations to enable regular and discrete review (Gifts and Hospitality, Register of Interests, and Secondary Employment).
Enhance ongoing monitoring and review of payments to Suppliers to complement the Budget Monitoring processes. More robust processes may have highlighted payments to non-contracted suppliers sooner	Review the process for approving and setting up new Suppliers on the payments database to enhance controls over creating a new Supplier Regularly review payments to Suppliers to ensure they reflect the Council's contract arrangements with Suppliers.
Ensuring more robust recording and tracking of plant and equipment to optimise use of resources. The whistleblowing allegations also related to the use of Council equipment for non-Council related work. More robust recording and tracking of plant and equipment would address this concern.	Review the Asset Register and Fleet Management system to enable better recording of information and tracking of plant and equipment purchased by the Council. This should include a regular review of assets to ensure they can be accounted for.
Develop supporting arrangements to provide a consistent approach to Business Continuity across the organisation	Authority will be sought from the Corporate Management Team for the purchase of an online Business Continuity Management System which can be rolled out across the Council.
Internal Audit review of Governance	An exercise will be undertaken in 2018/19 to re-shape the Annual Governance Statement to align more fully with the 7 core principles of the Local Code with the expectation

Area for Improvement	Proposed Action in 2018/19
	that the Code will also be updated to reflect current practice within Midlothian Council

Progress on these Proposed Actions for 2018/19 will be reported to the Audit Committee on a quarterly basis to enable effective monitoring of the implementation of the Areas for Improvement.

On the basis of the Council's assurance system, and the elements of governance at its disposal, we are satisfied that overall, Midlothian Council's systems of internal control, risk management and governance arrangements are of a satisfactory standard. We are aware of areas where improvements are required and steps will be taken in the forthcoming year to address these areas, allowing the Council to advance its corporate governance arrangements and seek continuous improvement. Where the Council has experienced financial loss, appropriate action will be taken to seek to recover any loss.

Signed:

Derek Milligan, Leader of the Council / Dr. Grace Vickers, Chief Executive

Date:

Remuneration Report

The Remuneration Report provides details of the Council's remuneration policy for its senior employees and senior councillors and states how its remuneration arrangements are managed. Senior employees within the Council are defined as those having the responsibility for the management of the Council to the extent that they can direct or control the major activities and/or have statutory responsibilities.

As well as providing details of the Council's remuneration policy, the remuneration report also details:

- Remuneration paid to senior employees and senior councillors of the Council for 2017/18;
- The number of employees whose remuneration was £50,000 or more, disclosed in pay bands of £5,000;
- The number and total cost of exit packages, disclosed in pay bands of £20,000;
- The Council's senior employees and senior councillors who participate in the Local Government Pension Scheme, administered by the Lothian Pension Fund, and the benefits provided under the scheme.

Audit of Remuneration Report

All information disclosed in the tables in this report will be audited by Ernst & Young LLP and all other sections of the Remuneration Report will be reviewed to ensure that they are consistent with the financial statements.

Employees Remuneration Policy

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. For 2017/18 the salaries of the Directors were 87% of the Chief Executive's 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 – Scottish Joint Negotiating Committee for Local Authority Services (SJNC).

Councillors Remuneration Policy

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183) as amended. The Regulations provide for the grading of councillors for the purposes of remuneration arrangements, as either 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 salary that is to be paid to the Leader of the Council is set out in the regulations and for 2017/18 this was £28,213. The regulations permit the Council to remunerate one civic head, the

Provost. The regulations set out the maximum salary that may be paid to the Provost and Council policy is to pay this salary which for 2017/18 was £21,160.

The regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its senior councillors shall not exceed £152,347. The maximum number of senior councillors allowable is eight. The Council is able to exercise local flexibility in the determination of the number of senior councillors and salary within these limits. The Council's policy is to pay seven senior councillors the maximum allowable salary of £21,160.

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 to be paid by the Council of which the Convener or Vice-Convener is a member. The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme. The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice-Convener of a Joint Board.

Pension Entitlement

The Council's senior employees and senior councillors can participate in the Local Government Pension Scheme administered by the Lothian Pension Fund. This is an average salary pension scheme which means that pension benefits are based an average of the pay over the number of years that a person has been a member of the scheme. The scheme's normal retirement age for employees is the same as the state pension age with a minimum of 65.

From 1 April 2009 a five tier contribution system was introduced with employee contributions rates applied in tiers ranging from 5.5% to 12% depending on the member's rate of pensionable pay at the end of the preceding year. This is designed to give more equality between the cost and benefits of scheme membership.

The tiers and employees contributions rates for 2017/18 are as follows:

Actual Pensionable Pay	**Contribution rate (%)**
On earnings up to and including £20,700	5.5%
On earnings above £20,700 and up to £25,300	7.25%
On earnings above £25,300 and up to £34,700	8.5%
On earnings above £34,700 and up to £46,300	9.5%
On earnings above £46,300	12%

Using these tiers average employee contribution rates are calculated for any given pensionable pay and these range from 5.5% to 12%. If an employee works part-time their contribution rate is worked out on the whole time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum on retirement. Pension scheme members may opt to commute pension for a lump sum payment up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/49th of career average salary and years of pensionable service. Prior to 2015 the accrual rate guaranteed a pension based on 1/60th of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80ths of final pensionable salary and years of pensionable service.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become 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.

Remuneration by Pay Band

Details of the Council’s employees receiving more than £50,000 remuneration for the year, excluding employer's pension and national insurance contributions, are as follows:

Total Employees 2016/17	Remuneration Band	Non- Teaching Employees 2017/18	Teaching Employees 2017/18	Total Employees 2017/18
69	£50,000 - £54,999	21	42	63
26	£55,000 - £59,999	13	20	33
8	£60,000 - £64,999	4	4	8
7	£65,000 - £69,999	4	2	6
4	£70,000 - £74,999	0	1	1
7	£75,000 - £79,999	8	1	9
0	£80,000 - £84,999	0	0	0
1	£85,000 - £89,999	0	1	1
0	£90,000 - £94,999	0	0	0
3	£95,000 - £99,999	0	0	0
0	£100,000 - £104,999	2	0	2
0	£105,000 - £109,999	0	0	0
0	£110,000 - £114,999	0	0	0
1	£115,000 - £119,999	0	0	0
0	£120,000 - £124,999	1	0	1
126	**TOTAL**	**53**	**71**	**124**

Exit Packages by Band

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. 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 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:

Number of Employees 2016/17	Total Cost £000 2016/17	Package Band	Number of Employees 2017/18	Total Cost £000 2017/18
1	17	£0 - £19,999	27	314
3	91	£20,000 - £39,999	32	1,010
5	351	£40,000 +	19	1,131
9	**459**	**TOTAL**	**78**	**2,455**

Remuneration paid to Senior Employees

The table below details remuneration paid to senior employees within the Council.

For year to 31 March 2017		For year to 31 March 2018		
Total Remuneration	**Name and Post Title**	**Salary, Fees & Allowances**	**Non Cash Benefits**	**Total Remuneration**
£114,015	K Lawrie, Chief Executive	£115,156	-	£115,156
£5,485	K Lawrie, Returning Officer	£5,227	-	£5,227
£99,332	J Blair, Director Resources	£96,138	£4,146	£100,284
£49,668	E McHugh, Joint Director Health & Social Care (1) (2)	£29,263	-	£29,263
£0	A Short Joint Director Health & Social Care (1, 2)	£16,817	-	£16,817
£99,336	M Smith, Director Education, Communities and Economy	£100,330	-	£100,330
£77,110	G Fairley, Head of Finance & ISS	£74,256	£3,586	£77,842
£76,579	G Vickers Head of Education (2)	£74,256	£3,430	£77,686
£0	A White Head of Adult and Social Care (3)	£30,940	£1,408	£32,348
£52,936	A Turpie, Legal Services Manager	£63,394	-	£63,394
£574,461	**Total**	**£605,777**	**£12,570**	**£618,347**

Pension Entitlement of Senior Employees

The table below details employer's pension contributions made in respect of senior employees within the Council.

For year to 31-Mar-17	Name and Post Title	For year to 31-Mar-18
£23,176	K Lawrie, Chief Executive	£23,346
£1,108	K Lawrie, Returning Officer	£1,056
£19,228	J Blair, Director Resources	£19,420
£9,614	E McHugh, Joint Director Health & Social Care (1)	£5,664
£0	A Short, Joint Director Health & Social Care (1, 2)	£1,231
£19,228	M Smith, Director Education, Communities and Economy	£19,420
£14,852	G Fairley, Head of Finance & Integrated Service Support	£15,000
£14,420	G Vickers, Head of Education	£15,000
£0	A White, Head of Adult and Social Care (3)	£6,250
£10,693	A Turpie, Legal Services Manager	£11,129
£112,319	**Total**	**£117,516**

1 Post joint funded 50:50 with NHS Lothian. Full time equivalent salary £100,330. Full time equivalent employer's pension contributions £19,420.
2 E McHugh retired on the 30th of October 2017, A Short was appointed 1st of November 2017.
3 Following E McHugh's retirement A White is included as Chief Social Work Officer.

Accrued Pension Benefits

Name and Post Title	As at 31-Mar-18 Pension £'000	As at 31-Mar-18 Lump Sum £'000	Difference from 31-Mar-17 Pension £'000	Difference from 31-Mar-17 Lump Sum £'000
K Lawrie, Chief Executive	40	63	3	1
J Blair, Director Resources	46	92	2	1
E McHugh, Joint Director Health & Social Care	44	90	1	0
A Short, Joint Director Health & Social Care	13	30	0	0
M Smith, Director Education, Communities & Economy	30	43	2	0
G Fairley, Head of Finance & ISS	35	71	1	0
G Vickers, Head of Education	4	0	1	0
A White, Head of Adult & Social Care	14	7	0	0
A Turpie, Legal Services Manager	24	46	2	2
Total	**250**	**442**	**12**	**4**

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

Remuneration of Senior Councillors

The following table provides details of the remuneration paid to senior councillors of Midlothian Council.

For year to 31 March 2017		For year to 31 March 2018		
Total Remuneration	**Name**	**Salary**	**Expenses**	**Total Remuneration**
£143	O Thompson, (3)	£0	£0	£0
£28,187	C Johnstone, Scottish National Party (SNP) Group Leader, (1)	£17,984	£240	£18,224
£21,247	B Constable, Not Re-elected, (1)	£1,983	£95	£2,078
£21,297	J Wallace, Councillor (1)	£1,987	£198	£2,185
£21,275	A Coventry, Not Re-elected, (1)	£1,983	£106	£2,089
£21,248	J Bryant, Not Re-elected, (1)	£1,983	£50	£2,033
£21,836	D Rosie, Not Re-elected, (1)	£1,948	£76	£2,024
£21,072	K Parry, Councillor (1, 4)	£20,947	£0	£20,947
£21,579	D Milligan, Leader of the Council, (2)	£26,995	£541	£27,536
£3,079	M Russell, Depute Provost, (2)	£20,843	£189	£21,032
£0	J Muirhead, Depute Leader, (2)	£20,554	£54	£20,608
£0	A Montgomery, Provost, (2, 5)	£15,833	£83	£15,916
£0	R Imrie, Senior Councillor, (2)	£20,554	£340	£20,894
£0	S Curran, Senior Councillor, (2)	£18,964	£135	£19,099
£0	J Hackett, Senior Councillor, (2)	£18,964	£195	£19,159
£0	P Winchester, Scottish Conservative and Unionist Group Leader, (2)	£18,964	£279	£19,243
£180,963	**Total**	**£210,486**	**£2,581**	**£213,067**

The Council paid £0.346 million (2016/17 £0.342 million) salaries to Councillors and expenses of £0.005 million (2016/17 £0.004 million). The annual return of Councillor’s salaries and expenses is available on the Council Website.

Pension Entitlement of Senior Councillors

31-Mar-17		31-Mar-18
£3,631	B Constable, Not Re-elected, (1)	£296
£3,639	J Wallace, Councillor (1)	£297
£3,631	D Rosie, Not Re-elected, (1)	£296
£4,048	C Johnstone, Scottish National Party (SNP) Group Leader, (1)	£0
£3,631	A Coventry, Not Re-elected, (1)	£296
£4,257	K Parry, Councillor (1, 4)	£4,231
£0	A Montgomery, Provost, (2, 5)	£3,121
£0	R Imrie, Senior Councillor, (2)	£4,075
£0	S Curran, Senior Councillor, (2)	£2,137
£0	J Hackett, Senior Councillor, (2)	£3,831
£0	P Winchester, Scottish Conservative and Unionist Group Leader, (2)	£3,831
£22,837		**£22,411**

1 The above list shows the current position of councillors, prior to the change of administration that resulted from the Council elections on 4th May 2017 the post of Council Leader was held by C Johnstone, Provost was J Wallace and others acted as Senior Councillors.
2 Prior to the change in administration the post of Opposition Leader was held by D Milligan, others acted as Councillors or were not elected members.
3 O Thompson stood down as Council Leader on 8th May 2015, being replaced by C Johnstone.
4 K Parry became the leader of the SNP group following the Council elections of the 4th of May 2017, she was replaced in this role by C Johnstone following the AGM of the SNP group from the 26th of March 2018
5 A Montgomery ceased to be Provost following his death on the 10th of January 2018.

Accrued Pension Benefits

	As at 31-Mar-18		Difference from 31-Mar-17	
Name and Post Title	**Pension**	**Lump Sum**	**Pension**	**Lump Sum**
	£0	**£0**	**£0**	**£0**
B Constable, not re-elected	5	1	2	0
J Wallace, councillor	2	0	0	0
D Rosie, not re-elected	2	0	0	0
A Coventry, not re-elected	2	0	0	0
R Imrie, Senior Councillor	3	1	0	0
K Parry, councillor	1	0	1	0
Total	**15**	**2**	**3**	**0**

Signed:

Derek Milligan
Leader of the Council

Grace Vickers
Chief Executive

Date:

Group and Council Comprehensive Income and Expenditure Statement

For the year ended 31 March 2018

This statement 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; these differ from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement. Following clarification within the CIPFA Code of Practice on Local Authority Accounting over the recognition of HRA capital grants, the Council has represented the 2016/17 figures to ensure these are consistent each year. Additionally the treatment of internal income and expenditure is different to that presented in the 2016/17 accounts. Internal income and expenditure is included increasing the Gross Income and Gross Expenditure lines for each Council service, it was excluded in the 2016/17 accounts, the prior-year figures have been restated. This change has no effect on the net expenditure reported.

Midlothian Council			Group			Midlothian Council			Group
Restated 2016/17 Gross Expenditure £000	Restated 2016/17 Gross Income £000	Restated 2016/17 Net Expenditure £000	Restated 2016/17 Net Expenditure £000	Service	Notes	2017/18 Gross Expenditure £000	2017/18 Gross Income £000	2017/18 Net Expenditure £000	2017/18 Net Expenditure £000
1,787	-66	1,721	1,721	Management	7	2,026	-82	1,944	1,944
16,210	-270	15,940	15,940	Children's Services	7	17,267	-354	16,913	16,913
7,123	-2,099	5,024	5,024	Communities and Economy	7	7,138	-3,318	3,820	3,820
99,237	-2,298	96,939	96,939	Education	7	99,503	-4,316	95,187	95,187
96,578	-56,745	39,833	39,833	Adult Social Care	7	99,202	-58,637	40,565	40,565
36,795	-31,049	5,746	5,746	Customer and Housing Services	7	31,505	-24,880	6,625	6,625
33,574	-11,573	22,001	22,001	Commercial Services	7	34,062	-10,932	23,130	23,130
12,527	-993	11,534	11,534	Finance and Integrated Service Support	7	12,507	-1,134	11,373	11,373
39,064	-19,381	19,683	19,683	Properties and Facilities Management	7	39,724	-19,060	20,664	20,664
30,739	-25,560	5,179	5,179	Housing Revenue Account	7	29,439	-27,058	2,381	2,381
560	0	560	560	Lothian Valuation Joint Board	7	562	0	562	562
Midlothian Council			**Group**			**Midlothian Council**			**Group**

Restated 2016/17 Gross Expenditure £000	Restated 2016/17 Gross Income £000	Restated 2016/17 Net Expenditure £000	Restated 2016/17 Net Expenditure £000	Service	Notes	2017/18 Gross Expenditure £000	2017/18 Gross Income £000	2017/18 Net Expenditure £000	2017/18 Net Expenditure £000
0	0	0	0	Central Costs	7	-533	0	-533	-533
1,449	0	1,449	1,499	Non-Distributable Costs	8	2,092	0	2,092	2,173
375,643	-150,034	225,609	225,659	**Net Cost of Services**		374,494	-149,771	224,723	224,804
		0	14	Share of operating results of associates				0	-342
		-1,855	-1,855	Other Operating Expenditure	9			-177	-177
		14,915	14,915	Financing and Investment Income and Expenditure	10			15,567	15,567
		-208,263	-208,263	Taxation and non-specific grant income	11			-210,733	-210,733
		30,406	**30,470**	**(Surplus) or Deficit on Provision of Services**				**29,380**	**29,119**
		-15,364	-15,364	(Surplus) or Deficit on revaluation of non-current assets				-1,899	-1,899
		44,365	44,365	Re-measurement of the net defined benefit liability	34			-44,600	-44,600
		95	623	Other (Gains) / Losses				-3,290	-3,879
		29,096	**29,624**	**Other Comprehensive (Income) and Expenditure**				**-49,789**	**-50,378**
		59,502	**60,094**	**Total Comprehensive (Income) and Expenditure**				**-20,409**	**-21,259**

Group and Council Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure) and other ‘unusable reserves’. This statement shows how the movements in year of the Council’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax and rents for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following these adjustments.

	Note / source	General Fund Reserve	HRA Balance	Capital Fund	Repairs and Renewals Fund	**Total Usable Reserves**	**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 1 April 2016		**-24,625**	**-24,913**	**-15,378**	**-3,607**	**-68,523**	**-256,598**	**-325,121**	**274**	**-324,847**
Total Comprehensive Expenditure and Income	CIES	21,818	8,589	0	0	**30,407**	**29,095**	**59,502**	**593**	**60,095**
Adjustments between accounting basis and funding basis under regulations	6	-14,337	-13,429	-1,329	0	-29,095	29,095	0	0	**0**
Net increase/ (decrease) before transfers to other statutory reserves		**7,481**	**-4,840**	**-1,329**	**0**	**1,312**	**58,190**	**59,502**	**593**	**60,095**
Transfers to/(from) other statutory reserves		-507	0	0	507	0	0	0	0	**0**
Increase/(Decrease) in year		**6,974**	**-4,840**	**-1,329**	**507**	**1,312**	**58,190**	**59,502**	**593**	**60,095**
Balance at 31 March 2017		**-17,651**	**-29,753**	**-16,707**	**-3,100**	**-67,211**	**-198,408**	**-265,619**	**867**	**-264,752**

General Fund Analysed Over		
Amounts Earmarked	39	-9,094
Amounts Uncommitted		-8,557
Total General Fund Balance at 31 March 2017		**-17,651**

	Note / source	General Fund Reserve	HRA Balance	Capital Fund	Repairs and Renewals Fund	**Total Usable Reserves**	**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 2017		**-17,651**	**-29,753**	**-16,707**	**-3,100**	**-67,211**	**-198,408**	**-265,619**	**867**	**-264,752**
Adjustments relating to revalued assets funded from developer contributions		0	0	0	0	0	-2,594	-2,594	0	-2,594
Adjustment relating to PPP long term liabilty		0	0	0	0	0	-230	-230	0	-230
Revised Balance at 31 March 2017		**-17,651**	**-29,753**	**-16,707**	**-3,100**	**-67,211**	**-201,232**	**-268,443**	**867**	**-267,576**
Total Comprehensive Expenditure and Income	CIES	21,039	8,341	0	0	**29,380**	**-49,789**	**-20,409**	**-850**	**-21,259**
Adjustments between accounting basis and funding basis under regulations	6	-16,391	-12,451	-318	0	-29,160	29,160	0	0	0
Net increase/ (decrease) before transfers to other statutory reserves		**4,648**	**-4,110**	**-318**	**0**	**220**	**-20,629**	**-20,409**	**-850**	**-21,259**
Transfers to/(from) other statutory reserves		2,226	0	-2,437	211	0	0	0	0	0
Increase/(Decrease) in year		**6,874**	**-4,110**	**-2,755**	**211**	**220**	**-20,629**	**-20,409**	**-850**	**-21,259**
Balance at 31 March 2018		**-10,777**	**-33,863**	**-19,462**	**-2,889**	**-66,991**	**-221,861**	**-288,852**	**17**	**-288,835**

General Fund Analysed Over		
Amounts Earmarked	39	-6,440
Amounts Uncommitted		-4,337
Total General Fund Balance at 31 March 2017		**-10,777**

Group and Council Balance Sheet
As at 31 March 2018

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets are matched by reserves which are reported in two categories. The first is 'usable reserves' which are available to the Council 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 are those that the Council is not able to use to provide services. This includes reserves that contain unrealised gains and losses 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".

Midlothian Council 31/03/2017 £000	Group 31/03/2017 £000		Notes	Midlothian Council 31/03/2018 £000	Group 31/03/2018 £000
651,696	651,696	Property, Plant and Equipment	12	634,013	634,013
766	766	Intangible Assets	13	514	514
68	68	Heritage Assets	15	76	76
4,935	4,935	Long Term Investments	17	8,399	8,399
0	-1,037	Investments share of net assets of associates		0	-70
3,136	3,136	Long Term Debtors	18	2,927	2,889
660,601	**659,564**	**Long Term Assets**		**645,929**	**645,821**
65,072	65,072	Short Term Investments	16	65,221	65,221
1,950	1,950	Assets held for Sale	14	4,257	4,257
811	811	Inventories		881	881
19,641	19,641	Short Term Debtors	18	18,455	18,510
10,894	10,894	Cash and Cash Equivalents	19	8,886	8,886
98,368	**98,368**	**Current Assets**		**97,700**	**97,755**
51,270	51,270	Short Term Borrowing	16	25,725	25,725
28,998	28,828	Short Term Creditors	20	39,214	39,178
1,431	1,431	Provisions	21	1,793	1,793
22,944	22,944	Grants Receipts in Advance	29	24,410	24,410
104,643	**104,473**	**Current Liabilities**		**91,142**	**91,106**
208,816	208,816	Long Term Borrowing	16	218,176	218,176
179,892	179,892	Other Long Term Liabilities	22	145,459	145,459
388,707	**388,707**	**Long Term Liabilities**		**363,635**	**363,635**
265,619	**264,752**	**Net Assets**		**288,852**	**288,835**
67,211	67,438	Usable Reserves	6&23	66,991	67,567
198,408	197,314	Unusable Reserves	24	221,861	221,268
265,619	**264,752**	**Total Reserves**		**288,852**	**288,835**

Gary Fairley, Head of Finance and Integrated Service Support

Unaudited Accounts were authorised for issue on 26th June 2018 and the audited accounts were authorised for issue on 25th September 2018.

Cash Flow Statement

For the year ended 31 March 2018

This statement summarises the inflows and outflows of cash arising from the transactions with third parties on both day-to-day revenue transactions and expenditure on capital activities. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financial activities. For the purpose of this statement, cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. 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.

2016/17			2017/18
£000	**Revenue Activities**	**Notes**	**£000**
-30,406	**Net surplus or (deficit) on the provision of services**		**-31,034**
64,498	Adjustment to surplus or deficit on the provision of services for non cash movements	25	66,947
13,172	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	-17,870
47,264	**Net Cash Flows From Operating Activities**		**18,043**
-65,902	Net cash flows from investing activities	26	-2,444
18,822	Net cash flows from financing activities	27	-17,607
184	**Net Increase or Decrease in Cash and Cash Equivalents**		**-2,008**
10,710	Cash and cash equivalents at the beginning of the reporting period	19	10,894
10,894	**Cash and cash equivalents at the end of the reporting period**		**8,886**

Notes to the Financial Statements

The notes to the Financial Statements present information about the basis of preparation of the Financial Statements and the specific accounting policies used. It discloses the information required by The Code that is not presented elsewhere in the Financial Statements together with other explanatory information.

1. Statement of Accounting Policies

1.1 General Principles

The Statement of Accounts summarise the Council's transactions for the 2017/18 financial year and its position as at 31 March 2018. The Council is required to prepare an annual Statement of Accounts in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 also requires the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (The Code) and the Service Reporting Code of Practice 2017/18 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government in Scotland Act 2003.

Accounting Concepts and Principles

The accounting concepts followed in the application of accounting policies are:

- Accruals - sums due to or from the Council during the year are included, whether or not the cash has actually been received or paid in the year.
- Going concern - this assumes that the Council will continue in existence for the foreseeable future.

The accounting concepts are supported by qualitative characteristics prescribed by the International Accounting Standards Board's Conceptual Framework for Financial Reporting:

- Two fundamental characteristics (relevance and faithful representation); and
- Four enhancement characteristics, which complement the fundamental characteristics (comparable, verifiable, timely and understandable).

Faithful representation has three characteristics:

- Completeness - the financial statements should include all information necessary for a user to understand them, including all necessary descriptions and explanations;
- Neutrality - the financial statements should be without bias in the selection or presentation of financial information; and
- Free from material error - there should be no errors or omissions in descriptions, or in the selection or application of the process used to produce the reported information.

1.2 Summary of Significant Accounting Policies

1.2.1 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from Council Tax and Non Domestic Rates is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably. Revenue is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- 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.

- National Non-domestic Rate debtors were previously shown on local authority balance sheets as debtors of the authority. Following a review of all types of local taxation, CIPFA/LASAAC concluded that local authorities act as an agent of the Government when collecting NDR. The code requires local authorities not to recognise NDR debtors in their balance sheets but instead to recognise a creditor or debtor for cash collected from NDR debtors as agent of the Government but not paid or overpaid to the Government.

1.2.2 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.

1.2.3 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 amortisations. 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 amortisations 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.

1.2.4 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and flexi-time balances. They are recognised as an expense for services in the year in which employees render services 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 benefits 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 severance and are charged on an accruals basis to the Non Distributed Costs line in the CIES 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);
- The Local Government Pensions Scheme, administered by the Lothian Pension Fund operated by the City of Edinburgh Council.

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

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

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 appropriations 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 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 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, unitised securities at current bid price and property at market value.

The change in the net pensions liability is analysed into seven components:

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES 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 CIES 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.;

- 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.

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

1.2.5 Events After the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period 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 Financial Statements 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.

1.2.6 Financial Instruments

Financial Liabilities

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

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund or HRA 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.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the CIES in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the CIES is spread over the life of the loan by an adjustment to the effective interest rate.

Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market;
- Available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables 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 loans that the Council has made, 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.

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, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the CIES.

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.

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

Available for Sale Assets

Available-for-sale assets 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. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g., dividends) is credited to the CIES when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the share of net assets basis as a proxy for quoted market prices.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for -Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the CIES, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

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

Any gains and losses that arise on the de-recognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

1.2.7 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, the interests in companies and other entities are recorded as the share of net assets.

1.2.8 Long Term Contracts

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price;

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

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

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

Assets are carried in the Balance Sheet using the following measurement bases:

- Council Houses are valued using the Beacon principle based on valuations carried out by the Council's Property Investment Manager. The main valuation basis used in is existing use – social housing. Gross valuations are reduced by applying a 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;
- Land and operational properties, including schools, have been valued at current value, determined as the amount that would be paid for an asset in its existing use;
- Community and Infrastructure assets are valued at depreciated historic cost;
- Vehicles, Plant and Equipment have been valued at depreciated historic cost;
- Assets Under Construction are held at historic cost;
- Surplus Assets are valued at open market value;
- 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.

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 fair value.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. 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 re-valued. Increases in valuations are matched by credits to the Revaluation Reserve to recognise any unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss that has been previously charged to a service.

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

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the 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 as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

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

Where an impairment loss is reversed subsequently, 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).

Deprecation 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 the Balance Sheet, as advised by a suitably qualified officer;
- Infrastructure – straight-line allocation.

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

- Council Dwellings – 40 to 60 years;
- Buildings – 10 to 30 years;
- Vehicles, Plant and Equipment – 5 to 10 years;
- Infrastructure – 15 years.

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 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 current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an 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.

1.2.10 VAT

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

2. Accounting Standards that have been issued but not yet adopted

The Code requires the 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 2018/19 Code.

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers* including amendments to IFRS 15 *Clarifications to IFRS 15 Revenue from Contracts with Customers*
- Amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative.

These changes will be effective from April 2018 and therefore have no impact on these accounts

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of 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. 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. Assumptions made about the future and other major sources of estimation uncertainty

The Financial Statements 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 Council's Balance Sheet as at 31 March 2018 for which there is significant risk of material adjustment in the forthcoming year are as follows:

<u>4.1 Property, Plant and Equipment</u>

Uncertainties

Assets are depreciated over useful lives that are dependent on assumptions about 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, bring into doubt the useful lives assigned to assets.

Effect if Actual Results Differ from Assumptions

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £4.223 million for every year that useful lives had to be reduced.

4.2 Pension Liabilities

Uncertainties

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

Effect if Actual Results Differ from Assumptions

The following table shows the sensitivity of the results to the changes in assumptions used to measure the scheme liabilities. Approximate percentage changes and monetary values are shown below:

	Approximate % increase to Employer Obligation	Approximate monetary amount £000
Sensitivities at 31 March 2018		
0.5% decrease in Real Discount Rate	10%	58,836
0.5% increase in the Salary Increase Rate	2%	11,888
0.5% increase in the Pension Increase Rate	8%	45,788

In addition it is estimated that a one year increase in life expectancy would approximately increase the Employer’s Defined Benefit Obligation by around 3-5%.

4.3 Collectability of debtors

A provision for bad debt is used to estimate the collectability of debtors. This is calculated as a percentage of debt outstanding using historical debt collection rates.

5. Expenditure and Funding Analysis

For the year ended 31 March 2018

The Expenditure and Funding Analysis demonstrates how the funding available to the Council (government grants, rents, council tax and business rates) has been used in providing services in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how resources have been 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. The table entitled **Building the Expenditure and Funding Analysis** in the Management Commentary reconciles the budget monitoring report to the Net Expenditure chargeable to the General Fund and HRA balances.

2016/17 Net expenditure chargeable to the General Fund and HRA balances	2016/17 Adjustments between the funding and accounting basis (1)	2016/17 Net expenditure in the Comprehensive Income and Expenditure Statement (3)	Service	2017/18 Net expenditure chargeable to the General Fund and HRA balances	2017/18 Adjustments between the funding and accounting basis (1)	2017/18 Net expenditure in the Comprehensive Income and Expenditure Statement (3)
£000	**£000**	**£000**		**£000**	**£000**	**£000**
1,574	146	1,721	Management	1,857	87	1,944
15,431	509	15,940	Children's Services	16,098	815	16,913
4,334	690	5,024	Communities and Economy	3,515	305	3,820
75,810	21,129	96,939	Education	77,878	17,309	95,187
38,237	1,596	39,833	Adult Social Care	38,806	1,759	40,565
5,305	441	5,746	Customer and Housing Services	6,654	-29	6,625
15,850	6,151	22,001	Commercial Services	15,801	7,329	23,130
11,159	375	11,534	Finance and Integrated Service Support	10,981	392	11,373
13,943	5,740	19,683	Properties and Facilities Management	14,318	6,346	20,664
-13,621	18,800	5,179	Housing Revenue Account	-14,461	16,842	2,381
560	0	560	Lothian Valuation Joint Board	562	0	562
0	0	0	Central Costs	-533	0	-533
1,407	42	1,449	Non-Distributable Costs	2,075	17	2,092
169,989	**55,619**	**225,609**	**Net Cost of Services**	**173,551**	**51,172**	**224,723**

2016/17 Net expenditure chargeable to the General Fund and HRA balances £000	2016/17 Adjustments between the funding and accounting basis (1) £000	2016/17 Net expenditure in the Comprehensive Income and Expenditure Statement (3) £000	Service	2017/18 Net expenditure chargeable to the General Fund and HRA balances £000	2017/18 Adjustments between the funding and accounting basis (1) £000	2017/18 Net expenditure in the Comprehensive Income and Expenditure Statement (3) £000
8,002	-9,857	-1,855	Other Income and Expenditure	9,102	-9,279	-177
12,477	2,437	14,915	Financing and Investment Income and Expenditure	12,386	3,181	15,567
-188,336	-19,927	-208,263	Taxation and non-specific grant income	-192,275	-18,458	-210,733
2,132	**28,272**	**30,406**	**(Surplus) or Deficit on Provision of Services**	**2,764**	**26,616**	**29,380**
-49,538			**Opening General Fund and HRA Balance**	**-47,406**		
2,132			**Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in year**	**2,764**		
-47,406			**Closing General Fund and HRA Balance (2)**	**-44,642**		

1. See **note 5** for further analysis of the movements
2. For the split of this balance between the General Fund and the HRA see the **Movement in Reserves Statement**
3. See **note 7** for further analysis of these totals

5a. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis **2016/17**

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes (1)	Net change for the pension adjustments (2)	Other Differences (3)	Total Adjustments
Service	**£000**	**£000**	**£000**	**£000**
Management	71	35	40	146
Children's Services	136	187	186	509
Communities and Economy	440	133	117	690
Education	18,283	1,953	893	21,129
Adult Social Care	647	473	476	1,596
Customer and Housing Services	295	0	146	441
Commercial Services	5,472	351	328	6,151
Finance and Integrated Service Support	771	-695	299	375
Properties and Facilities Management	4,693	498	549	5,740
Housing Revenue Account	18,640	160	0	18,800
Lothian Valuation Joint Board	0	0	0	0
Non-Distributable Costs	0	0	42	42
Net Cost of Services	**49,448**	**3,095**	**3,076**	**55,619**
Other income and expenditure from the Expenditure and Funding Analysis	-29,776	2,436	-7	-27,347
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**19,672**	**5,531**	**3,069**	**28,272**

Adjustments between Funding and Accounting Basis **2017/18**

Service	**£000**	**£000**	**£000**	**£000**
Management	0	84	3	87
Children's Services	400	452	-37	815
Communities and Economy	6	321	-22	305
Education	12,455	4,720	134	17,309
Adult Social Care	637	1,143	-21	1,759
Customer and Housing Services	-23	0	-6	-29
Commercial Services	6,514	848	-33	7,329
Finance and Integrated Service Support	688	-268	-28	392
Properties and Facilities Management	5,191	1,204	-49	6,346
Housing Revenue Account	16,455	387	0	16,842
Lothian Valuation Joint Board	0	0	0	0
Central Services	0	0	0	0
Non-Distributable Costs	0	0	17	17
Net Cost of Services	**42,323**	**8,891**	**-42**	**51,172**
Other income and expenditure from the Expenditure and Funding Analysis	-27,729	3,181	-8	-24,556
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**14,594**	**12,072**	**-50**	**26,616**

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement. For statutory accounting purposes, the undernoted adjustments are required to be included within the Comprehensive Income and Expenditure Statement. These adjustments are not charged to the Council for Council Tax or Rent setting purposes and are excluded for the General Fund and HRA Balances available to support services.

1) Adjustments for Capital Purposes

This column adds in 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 as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure –** capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. 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 pension 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 Differences

Other differences 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 accrual made for the cost of holiday/Flexi-time/Time-off-on-lieu entitlement earned by employees but not taken before the year end which employees can carry forward into the next financial year. These require to be included within the net cost of services under generally accepted accounting practices, however are not chargeable to the General Fund.
- **For Financing and investment income and expenditure** this is an effective interest adjustment on the Council's Lender Option/Borrower Option (LOBO) debt.

6. Adjustments between accounting basis and funding under regulations

2016/17	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Total Useable Reserves £000	Total Unusable Reserves £000
Adjustments Primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the CIES					
Charges for depreciation of non-current assets	-28,392	-7,098	0	**-35,490**	**35,490**
Amortisation of intangible assets	-187	0	0	**-187**	**187**
Revaluation losses on PPE and assets held for sale	-1,797	-11,542	0	**-13,339**	**13,339**
Net gain or loss on sale of non-current assets	51	1,804	0	**1,855**	**-1,855**
Statutory Provision for the financing of capital investment	4,840	3,661	0	**8,501**	**-8,501**
Net revenue expenditure financed from capital under statute (REFFCUS)	-22	0	0	**-22**	**22**
Adjustments primarily involving the Capital Grant Unapplied Account					
Application of grants to capital financing transferred to the CAA	13,818	5,698	0	**19,516**	**-19,516**
Adjustments primarily involving the Capital Fund					
Capital Receipts Transferred to the Capital Fund	0	0	-1,329	**-1,329**	**1,329**
Adjustments involving the Financial Instruments Adjustment Account					
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	8	0	0	**8**	**-8**
Adjustments primarily involving the pensions reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	-17,729	-254	0	**-17,983**	**17,983**
Employers Pension contributions and direct payments to pensioners payable in the year	12,452	0	0	**12,452**	**-12,452**
Adjustments primarily involving the Employee Statutory Adjustment Account					
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	-3,077	0	0	**-3,077**	**3,077**
Total Adjustments	**-20,035**	**-7,731**	**-1,329**	**-29,095**	**29,095**

2017/18	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Total Useable Reserves £000	Total Unusable Reserves £000
Adjustments Primarily involving the Capital Adjustment Account					
Reversal of items debited or credited to the CIES					
Charges for depreciation of non-current assets	-22,247	-7,125	0	**-29,372**	**29,372**
Amortisation of intangible assets	-206	0	0	**-206**	**206**
Revaluation losses on PPE and assets held for sale	-3,414	-9,330	0	**-12,744**	**12,744**
Net gain or loss on sale of non-current assets	-255	432	0	**177**	**-177**
Statutory Provision for the financing of capital investment	5,222	4,083	0	**9,305**	**-9,305**
Net revenue expenditure financed from capital under statute (REFFCUS)	0	0	0	**0**	**0**
Adjustments primarily involving the Capital Grant Unapplied Account					
Application of grants to capital financing transferred to the CAA	16,021	0	0	**16,021**	**-16,021**
Adjustments primarily involving the Capital Fund					
Capital Receipts Transferred to the Capital Fund	0	0	-319	**-319**	**319**
Adjustments involving the Financial Instruments Adjustment Account					
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	8	0	0	**8**	**-8**
Adjustments primarily involving the pensions reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	-25,431	-510	0	**-25,941**	**25,941**
Employers Pension contributions and direct payments to pensioners payable in the year	13,869	0	0	**13,869**	**-13,869**
Adjustments primarily involving the Employee Statutory Adjustment Account					
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	41	0	0	**41**	**-41**
Total Adjustments	**-16,392**	**-12,450**	**-319**	**-29,161**	**29,161**

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement 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

7 Group and Council Expenditure and Income Analysed by Segment and Nature

2016/17 Service Area	Employee Expenses	Other Service Expenses	Depreciation, Amortisation and Impairment	Interest Payments	Loss/Gain on Disposal of non-current assets	Share of Operating Results of Associates	**Total Expenditure**	Fees, Charges and Other Service Income	Interest and Investment Income	Income from Council Tax	Government Grants and Contributions	**Total Income**	**Net Expenditure**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Management	1,416	300	71	0	0	0	**1,787**	-66	0	0	0	**-66**	1,721
Children's Services	6,424	9,649	137	0	0	0	**16,210**	-194	0	0	-76	**-270**	15,940
Communities and Economy	4,066	3,050	7	0	0	0	**7,123**	-1,505	0	0	-594	**-2,099**	5,024
Education	62,588	18,366	18,283	0	0	0	**99,237**	-1,664	0	0	-634	**-2,298**	96,939
Adult Social Care	16,469	79,462	647	0	0	0	**96,578**	-55,411	0	0	-1,334	**-56,745**	39,833
Customer and Housing Services	4,978	31,522	295	0	0	0	**36,795**	-3,925	0	0	-27,124	**-31,049**	5,746
Commercial Services	11,429	16,673	5,472	0	0	0	**33,574**	-11,309	0	0	-264	**-11,573**	22,001
Finance and Integrated Service Support	9,551	2,205	771	0	0	0	**12,527**	-993	0	0	0	**-993**	11,534
Properties and Facilities Management	18,957	15,414	4,693	0	0	0	**39,064**	-18,996	0	0	-385	**-19,381**	19,683
HRA	0	12,099	18,640	0	0	0	**30,739**	-16,940	-8,620	0	0	**-25,560**	5,179
Lothian Valuation Joint Board	0	560	0	0	0	0	**560**	0	0	0	0	**0**	560
Non-distributable costs	1,499	0	0	0	0	0	**1,499**	0	0	0	0	**0**	1,499
Costs not included in a Service	2,437	0	0	13,330	-1,855	14	**13,926**	0	-852	-36,416	-171,847	**-209,115**	-195,189
Total	**139,814**	**189,300**	**49,016**	**13,330**	**-1,855**	**14**	**389,619**	**-111,003**	**-9,472**	**-36,416**	**-202,258**	**-359,149**	**30,470**

2017/18 Service Area	Employee Expenses	Other Service Expenses	Depreciation, Amortisation and Impairment	Interest Payments	Loss/Gain on Disposal of non-current assets	Share of operating results of associates	**Total Expenditure**	Fees, Charges and Other Service Income	Interest and Investment Income	Income from Council Tax	Government Grants and Contributions	**Total Income**	**Net Expenditure**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Management	1,716	310	0	0	0	0	**2,026**	-82	0	0	0	**-82**	1,944
Children's Services	6,086	10,781	400	0	0	0	**17,267**	-208	0	0	-146	**-354**	16,913
Communities and Economy	3,898	3,234	6	0	0	0	**7,138**	-1,892	0	0	-1,426	**-3,318**	3,820
Education	68,687	18,361	12,455	0	0	0	**99,503**	-1,185	0	0	-3,131	**-4,316**	95,187
Adult Social Care	18,008	80,557	637	0	0	0	**99,202**	-57,204	0	0	-1,433	**-58,637**	40,565
Customer and Housing Services	5,248	26,280	-23	0	0	0	**31,505**	-1,715	0	0	-23,165	**-24,880**	6,625
Commercial Services	11,934	15,614	6,514	0	0	0	**34,062**	-10,763	0	0	-169	**-10,932**	23,130
Finance and Integrated Service Support	10,057	1,762	688	0	0	0	**12,507**	-1,134	0	0	0	**-1,134**	11,373
Properties and Facilities Management	19,889	14,645	5,190	0	0	0	**39,724**	-18,707	0	0	-353	**-19,060**	20,664
HRA	0	12,984	16,455	0	0	0	**29,439**	-27,058	0	0	0	**-27,058**	2,381
Lothian Valuation Joint Board	0	562	0	0	0	0	**562**	0	0	0	0	**0**	562
Central Costs	0	-533	0	0	0	0	**-533**	0	0	0	0	**0**	-533
Non-distributable costs	2,173	0	0	0	0	0	**2,173**	0	0	0	0	**0**	2,173
Costs not included in a Service	3,181	0	0	13,136	-177	-342	**15,798**	0	-750	-40,698	-170,035	**-211,483**	-195,685
Total	**150,877**	**184,557**	**42,322**	**13,136**	**-177**	**-342**	**390,373**	**-119,948**	**-750**	**-40,698**	**-199,858**	**-361,254**	**29,119**

8. Non-distributable costs

£000		£000
1,449	Pension Costs	2,092
1,449	**Total Non-distributable Costs**	**2,092**

9. Other operating income and expenditure

£000		£000
-1,855	(Surplus)/Deficit on sale of non current assets	-177
-1,855	**Total Other Operating Income and Expenditure**	**-177**

10. Financing and investing income and expenditure

£000		£000
13,983	Interest payable and similar charges	13,678
2,437	Pension interest cost on defined benefit obligation and interest income on plan assets	3,181
-1,505	Interest received and similar income	-1,292
14,915	**Total**	**15,567**

11. Taxation and non-specific grant income

2016/17		2017/18
£000	**Credited to Taxation and Non-Specific Grant Income**	**£000**
36,415	Council Tax Income	40,698
31,945	Non Domestic Rates Income	29,204
119,976	Non-Specific Government Grants	122,373
19,927	Capital grants	18,458
208,263	**Total Taxation and Non-Specific Grant Income**	**210,733**
	Credited to Services	
26,767	Housing Benefit Subsidy	23,162
0	Pupil Equity Funding	2,273
979	Community Justice Grant	1,108
127	LEADER Programme	370
0	Early Years Expansion	370
241	Business Gateway	252
0	Borders Railway Blueprint	237
121	Gorebridge CARS	220
289	Other grants	211
213	Active Schools	210
165	Big Lottery funding	163
0	Penicuik THI	113
130	Youth Music Initiative	111
0	Early Years Trial	105

0	European Social Fund	104
108	Opportunities for All	102
91	Caledonian Funding	85
79	Smarter Choices Smarter Places	85
50	Unaccompanied Asylum Seeking Children	81
0	Track 2 Train	72
0	Life Changes Trust	65
0	Get Going	60
44	Transforming Care After Treatment	42
49	East Lothian & Midlothian Domestic Abuse Advisor Service	41
40	Aging Well	41
0	Paticipatory Budgeting funding	40
45	Inward Investment Funding	37
33	Bus Service Operators Grant	31
38	Switched on Fleet Grant	31
358	Discretionary Housing Payments Contribution	0
105	Youth Employment Scotland	0
77	Technology Enabled Care	0
76	Innovation Fund	0
68	Hop-on Hop-off bus	0
45	Developing Scotland's Young Workforce	0
40	Active Choices	0
35	Spirit of 2012	0
30,412	**Total**	**29,822**

31-Mar-17 £000	Grants Receipts in Advance	Note	31-Mar-18 £000
	Revenue Grants		
0	Scottish Government Blueprint Grant Gorebridge Connected		1,018
0	Scottish Government Blueprint Grant Track to Train		141
0	Scottish Government Regeneration Capital Grant Track to Train		338
	Capital Grants		
20,359	Section 75 contributions from private developers		22,880
96	Scottish Government Inspiring Learning Spaces Grant		34
2,489	Hopefield Insurance Receipt	1	0
22,944	**Total**		**24,410**

1 Hopefield Insurance Receipt held in Grant Receipts in Advance as at 31 March 2017 and subsequently recognised as income in Taxation and non-specific grant income in 2017/18.

12. Movement in non-current assets, property, plant and equipment

The Council carries out a rolling programme which ensures that the Property, Plant and Equipment required to be measured at current value, Council Dwellings, Land and Buildings and Surplus Assets, undergoes revaluation at least every five years. Professionally qualified valuers (RICS: Royal Institute of Chartered Surveyors) employed within the Council’s Asset Management Team carry out valuations of all property-based assets held by the Council

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation as at 31 March 2016	**300,814**	**306,530**	**15,274**	**27,023**	**58,855**	**7,687**	**16,147**	**8,087**	**740,417**
Additions	8,170	2,447	35	3,207	3,628	346	31,229	26	49,088
Disposals	-4,422	-214	-315	-1,050	0	0	0	0	-6,001
Reclassification	11,783	503	-5,720	0	0	0	-5,866	-700	0
Revaluation to I&E	-11,542	-292	-2,600	0	0	-11	0	0	-14,445
Revaluation to Revaluation Reserve	-846	-7,191	4,634	0	0	-363	0	-1,400	-5,166
Gross Book value at 31 March 2017	**303,957**	**301,783**	**11,308**	**29,180**	**62,483**	**7,659**	**41,510**	**6,013**	**763,893**

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Depreciation as at 31 March 2016	**-26,653**	**-23,501**	**0**	**-17,737**	**-31,348**	**-276**	**0**	**2**	**-99,513**
Depreciation Charge for the Year	-7,098	-20,931	0	-2,885	-3,345	-534	0	-696	-35,489
Disposals	243	0	0	946	0	0	0	0	1,189
Reclassification	0	0	0	0	0	0	0	0	0
Revaluation to I&E Depreciation	0	457	0	0	0	0	0	650	1,107
Revaluation to Revaluation Reserve Depreciation	133	20,046	0	0	0	330	0	0	20,509
Depreciation as at 31 March 2017	**-33,375**	**-23,929**	**0**	**-19,676**	**-34,693**	**-480**	**0**	**-44**	**-112,197**
Net book value as at 31 March 2016	**274,161**	**283,029**	**15,274**	**9,286**	**27,507**	**7,411**	**16,147**	**8,089**	**640,904**
Net book value as at 31 March 2017	**270,582**	**277,854**	**11,308**	**9,504**	**27,790**	**7,179**	**41,510**	**5,969**	**651,696**

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cost or Valuation as at 31 March 2017	**303,957**	**301,783**	**11,308**	**29,180**	**62,483**	**7,659**	**41,510**	**6,013**	**763,893**
Adjustment	644	-4,485	3,838	3	0	0	0	0	**0**
Restated Opening balance 01 April 2017	**304,601**	**297,298**	**15,146**	**29,183**	**62,483**	**7,659**	**41,510**	**6,013**	**763,893**
Additions	7,766	9,503	25	3,505	3,072	19	3,383	3	27,276
Disposals	-1,850	-423	-5	-1,388	0	0	0	0	-3,666
Reclassification	6,317	28,636	-2,436	0	0	0	-35,272	452	-2,303
Revaluation to I&E	-9,330	-3,212	-1,364	0	0	0	0	0	-13,906
Revaluation to Revaluation Reserve	0	-9722	138	4	0	301	0	0	-9279
Gross Book value at 31 March 2018	**307,504**	**322,080**	**11,504**	**31,304**	**65,555**	**7,979**	**9,621**	**6,468**	**762,015**

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Depreciation as at 31 March 2017	**-33,375**	**-23,929**	**0**	**-19,676**	**-34,693**	**-480**	**0**	**-44**	**-112,197**
Adjustment	78	-60	0	-16	0	0	0	-2	**0**
Restated Opening balance 01 April 2017	**-33,297**	**-23,989**	**0**	**-19,692**	**-34,693**	**-480**	**0**	**-46**	**-112,197**
Depreciation Charge for the Year	-7,048	-16,147	0	-2,430	-3,215	-484	0	-46	-29,370
Disposals	216	0	0	1,211	0	0	0	0	1,427
Reclassification	0	0	0	0	0	0	0	0	0
Revaluation to I&E Depreciation	0	1,162	0	0	0	0	0	0	1,162
Revaluation to Revaluation Reserve Depreciation	0	10,122	0	0	0	854	0	0	10,976
Depreciation as at 31 March 2018	**-40,129**	**-28,852**	**0**	**-20,911**	**-37,908**	**-110**	**0**	**-92**	**-128,002**
Net book value as at 31 March 2017	**270,582**	**277,854**	**11,308**	**9,504**	**27,790**	**7,179**	**41,510**	**5,969**	**651,696**
Net book value as at 31 March 2018	**267,375**	**293,228**	**11,504**	**10,393**	**27,647**	**7,869**	**9,621**	**6,376**	**634,013**

13. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the 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 line(s) 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. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Software licences are held for a number of systems operated by the Council which cost £1.811 million (2016/17 £1.595 million). This cost is being written off over 3 or 5 years depending on the life of the licence. A total of £1.380 million has been written off (2016/17 £1.174 million).

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 Council currently holds £0.082 million of allowance as intangible assets (2016/17 £0.345 million), all of which were purchased as additions during 2014/15. £0.262 of the original allowances was surrendered in line with the scheme during the year.

2016/17		**2017/18**
£000		**£000**
2,061	**Gross carrying amount at start of year**	**1,941**
-988	Accumulated amortisation	-1,175
1,073	**Net carrying amount at the start of year**	**766**
166	Additions – purchased	216
-286	Surrender of CRC Allowance	-262
-187	Amortisation	-206
766	**Net Book Value at Year End**	**514**

14. Movement in assets held for sale

2016/17 £000		2017/18 £000
2,535	**Balance Outstanding as at 1 April**	**1,950**
0	Transfers from Non Current Assets during the year	2,303
0	Revaluations and Restatements	-1
40	Additions	5
-625	Asset Disposal - Other	0
1,950	**Balance Outstanding as at 31 March**	**4,257**

All assets included above would come under the fair value hierarchy category of Level 2 – Fair Value measured using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

15. 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. There has been expenditure of £0.009 million on heritage assets and depreciation of £0.001 million. Heritage assets are valued at £0.076 million (2016/17 £0.068 million).

16. Financial instruments

The code requires that financial instruments are to be shown at fair value which is defined as the amount for which an asset could be exchanged for or a liability settled, assuming the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy / sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.

The Council has adopted CIPFA's 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.

Financial Instrument Balances

31-Mar-17 Long Term £000	Current £000		31-Mar-18 Long Term £000	Current £000
		Financial Liabilities		
208,816	51,270	External Borrowings at amortised cost	218,176	25,725
53,659	1,313	PPP Liability (see Note 33)	52,233	1,426
0	15,960	Creditors	0	26,567
262,475	**68,543**	**Total Financial Liabilities**	**270,409**	**53,718**
		Financial Assets		
0	65,072	Loans and Receivables	333	65,221
4,935	0	Available-for-sale Financial Assets	8,066	0
0	10,894	Cash and Cash Equivalents (see Note 18)	0	8,886
0	10,458	Debtors	0	2,370
4,935	**86,424**	**Total Financial Assets**	**8,399**	**76,477**

Long Term borrowing as shown in the Balance Sheet of £218.176 million fully comprises principal to be repaid later than 12 months (PWLB Maturity Loans of £187.224 million, PWLB Annuity Loans of £0.674 million, LOBO Loans of £20.597 million, Market Loans of £9.464 million and Salix Loans of £0.216 million). Lender Option Borrower Options (LOBO's) of £20.597 million have been included in long term borrowing (inclusive of the Effective Interest Rate adjustment), this reflecting the contractual period to maturity for these instruments, given the unlikelihood of call within the next 12 months.

Short Term borrowing as shown in the Balance Sheet of £25.725 million comprises accrued interest of £2.264 million, the LOBO Effective Interest Rate adjustment to be amortised in 2018/19 of £0.009 million and principal to be repaid within 12 months of £23.452 million (£13.000 million Temporary Loans; £10.000 million PWLB Maturities; £0.357 million Market Loans, £0.062 million Salix Loan, £0.034 million PWLB Annuities).

Gains and Losses on Financial Instruments

There were no gains on Available for Sale Financial Assets recognised in the Comprehensive Income and Expenditure Statement for the year.

Total Interest Income/Expense

Total interest income and total interest expense (calculated using the effective interest method) for financial assets and liabilities that are not at fair value through profit or loss for 2017/18 was £8.074 million equating to £8.615 million interest paid on external borrowings less £0.542 million interest received on loans and receivables and cash and cash equivalents.

Fee Income and Expense

Total fee expense for financial assets and liabilities that are not at fair value through profit or loss for 2017/18 was £0.127 million.

Fair Value of Assets and Liabilities Carried at Amortised Cost

The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost is disclosed below.

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. It 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 lender's 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, the Council's treasury management consultants, from the market on 31 March 2018.

The calculations are made with the following assumptions:

- Fair values have been calculated for all financial instruments in the portfolio;
- The fair value of trade and other receivables is taken to be the invoiced 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 market 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;
- For PWLB debt, the discount rate used is:-
    a) the "Standard New Loan Rate (net of certainty rate discount) for new borrowing "Fair Value (New Loan)" column of table below; and
    b) the Premature Repayment Rate "Fair Value (Premature Redemption)" column of table below; as per rate sheet number 127/18 issued by PWLB on 31 March 2018.
- For Fixed Rate market debt the discount rate used is:-
    - the New market Loan Rate for an instrument with the same terms from a comparable lender ["Fair Value (New Loan)" column of table below]; and
    - the Premature Repayment Rate ["Fair Value (Premature Redemption)" column of

table below]; as per rate sheet number 127/18 issued by PWLB on 31 March 2018.

- For non-fixed rate LOBO debt the discount rate used is:-
    - The relevant Gilt Rate plus 80 basis points [“Fair Value (New Loan)” column of table below]; and
    - the Premature Repayment Rate [“Fair Value (Premature Redemption)” column of table below]; as per rate sheet number 127/18 issued by PWLB on 31 March 2018.

Fair values of financial liabilities (where available) are calculated as:

31-Mar-17 Carrying Amount	31-Mar-17 (a) Fair Value	31-Mar-17 (b) Fair Value	Liability	31-Mar-18 Principal Outstanding	Add LOBO Accounting Adjustment	Add Accrued Interest	Carrying Amount	(a) Fair Value (New Loan)	(b) Fair Value (Premature Redemption)
£000	£000	£000		£000	£000	£000	£000	£000	£000
199,858	249,228	292,610	PWLB	197,933	0	1,921	199,854	246,817	291,927
20,885	31,707	38,458	LOBO	20,000	606	273	20,879	31,029	38,277
			Market Loans	9,821	0	65	9,886	10,266	12,350
39,004	39,001	39,006	Short Term Borrowing	13,000	0	5	13,005	13,005	13,006
339	318	331	Salix	277	0	0	277	248	263
260,086	**320,254**	**370,405**	**Total**	**241,031**	**606**	**2,264**	**243,901**	**301,365**	**355,823**

Fair values of assets are calculated as:

31-Mar-17 Carrying Amount	31-Mar-17 Fair Value	Investments	31-Mar-18 Principal Advanced	Add Accrued Interest	Carrying Ammount	Fair Value
£000	£000		£000	£000	£000	£000
10,894	10,895	Cash and Cash Equivalents	8,881	5	8,886	8,886
65,072	65,060	Short Term Investments	64,985	236	65,221	65,088
75,966	**75,955**	**Total**	**73,866**	**241**	**74,107**	**73,974**

Nature and extent of risks arising from Financial Instruments

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.

The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

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. 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.

The following analysis summarises the Council's potential maximum exposure to credit risk based on past experience and current market conditions. No credit limits were exceeded during the financial year and the Council expects full repayment on the due date of deposits placed with its counterparties.

	Amounts at 31 March 2018	Historical experience of default	Historical experience adjusted for market conditions as at 31 March 2018	Estimated maximum exposure to default and non-collectable amounts
	£000	%	%	£000
Cash & Cash Equivalents & Short Term Investments	74,107	0	0	0

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

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

31-Mar-17		31-Mar-18
£000		£000
18,735	Less than 3 months	8,886
35,069	3 to 6 months	35,208
30,004	6 months to 1 year	15,010
0	More than 1 year	15,003
83,808	**Total**	**74,107**

Liquidity Risk

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

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

Age Analysis

31-Mar-17 £000		31-Mar-18 £000
49,031	Less than 1 year	23,452
10,034	1 to 2 years	8,855
17,733	2 to 5 years	11,030
2,256	5 to 10 years	3,270
55,665	10 to 20 years	59,162
0	20 to 30 years	2,679
80,534	30 to 40 years	85,534
37,049	40 to 50 years	42,049
5,000	Greater than 50 years	5,000
257,302	**Total**	**241,031**

Market 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 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 charged to the CIES. However, the Council has partially hedged against this risk for an element of its loan portfolio by entering into two forward starting loan transactions, where loans are drawn at pre-defined future dates and where the interest rate was fixed at the point of execution of the loans in February 2016. The first of these loans was drawn in June 2017 and the second will be drawn in November 2018;

The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet or the CIES for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the balance sheet for those assets shown on the balance sheet at fair value;

The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the balance sheet or CIES for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

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

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

According to this assessment strategy, at 31 March 2018, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

Interest Rate Risk

	£000	£000
Increase in interest payable on variable rate borrowings	275	
Increase in interest receivable on variable rate instruments	(847)	
Increase in government grant receivable for financing costs	0	
Impact on CIES	**(572)**	
Share of overall impact credited to the HRA	**(250)**	
	A	**B**
Decrease in fair value of fixed rate investment assets (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income & Expenditure)	**533**	**533**
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income & Expenditure)	**(44,375)**	**(57,998)**

Note: Column A reflects the decrease in fair value of fixed rate investment assets & borrowing liabilities using the “New Loan” rate measurement of Fair Value. Column B reflects the decrease in fair value of fixed rate investment assets & borrowing liabilities using the “Premature Repayment” rate measurement of Fair Value. The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk

The Council has a 5.5% shareholding in Lothian Buses which is available for sale to other company shareholders. The Council also have a subordinated debt investment in Newbattle DBFMCo Limited. There is no price risk associated with either of these.

Foreign Exchange Risk

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

17. Long Term Investments

2016/17 £000		2017/18 £000
4,935	Lothian Buses plc	8,066
0	Newbattle DBFMco Ltd	333
4,935	**Total Long Term Investments**	**8,399**

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 published results of the company are as follows:-

Year to 31-Dec-16 £000		Year to 31-Dec-17 £000
146,915	Turnover	152,884
13,995	Profit before taxation	10,008
-2,013	Taxation	-2,639
11,982	Profit after taxation	7,369
6,592	Ordinary dividend	6,790
-4,645	Transfer to / (from) reserves	57,258
90,225	**Net assets at end of year**	**147,483**

In 2017/18, Midlothian Council subscribed £0.333 million of subordinated debt in Newbattle DBFMCo Limited, a company set up specifically to deliver the Council's Schools for the Future 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 the resale value.

The principal on this investment will be repaid according to the profile outlined below with the principal fully repaid over the 25-year project life. Interest will be paid biannually at a 10.50% coupon based on the average principal outstanding over the relevant 6 month period.

Maturity Period	Principal Repaid £000's
0-1 years	3
1-2 years	2
2-5 years	1
5-10 years	3
10-15 years	9
15-20 years	7
20-25 years	308
Total	**333**

18. Debtors

The debtors balance consists primarily of debts in respect of Council Tax, House Rents and other recoverable accounts.

Short Term Debtors

Short Term Debtors

2016/17 £000	2016/17 £000		2017/18 £000	2017/18 £000
29,539		Council Tax and Community Charge	30,144	
-27,590		Less: bad debt provision	-28,544	
	1,949			1,600
	4,766	Central Government Bodies		3,804
	208	Other Local Authorities		261
	1,097	NHS Bodies		888
	2,625	Rents		3,564
15,260		Grants, External Debtor accounts and other Income due	15,225	
-6,264		Less: bad debt provision	-6,887	
	8,996			8,338
	19,641	**Net Debtors**		**18,455**

Long Term Debtors

2016/17 £000		2017/18 £000
3,100	Prepayment to PPP Contractor	2,889
36	Pacific Shelf	38
3,136	**Total Long Term Debtors**	**2,927**

19. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours, or card payments made by customers with a two business day settlement period (T+2) or less. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the Balance Sheet as follows:

2016/17		2017/18
£000		**£000**
54	Cash and Bank Balances	436
18,681	Short Term Deposits Considered to be Cash Equivalents	8,031
-7,841	Bank Overdraft	419
10,894	**Total Cash and Cash Equivalents**	**8,886**

20. Creditors

The creditors balance consists primarily of amounts due in respect of trade creditors, external interest payments and other sundry creditors.

2016/17		2017/18
£000		**£000**
15,467	Trade Creditors	15,105
1,631	Central Government Bodies	6,640
6,368	Accumulated Absences	6,327
425	Other Local Authorities	3,469
735	NDR/Council Tax	3,116
2,601	Payroll Costs Due	1,549
71	NHS Bodies	250
1,700	Other Entities and Individuals	2,758
28,998	**Total Creditors**	**39,214**

21. 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 CIES 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.
A provision for potential uninsured losses arising from claims is also made and this amounted to £0.940 million at 31 March 2018 (2016/17 £1.431 million) and is shown in other provisions.

The Council had in place for a period during 2017/18 a time limited Voluntary Severance Scheme. A provision for £0.853 million has been made for staff release costs where employees have an agreed departure date as at 31 March 2018, no provision was made in 2016/17.
Provision for Uninsured Losses

2016/17 £000		2017/18 £000
1,640	**Balance at 1st April**	**1,431**
455	New insurance provisions made in the period	499
104	Increases to existing insurance provisions made in the period	258
-127	Decrease to existing insurance provisions made in the period	-217
-641	Full settlement of existing insurance provisions made in the period	-1,031
1,431	**Balance at 31st March**	**940**

Provision for the cost of staff released under voluntary severance

2016/17 £000		2017/18 £000
0	**Balance at 1st April**	**0**
0	Provision for costs of staff released under voluntary severance	853
0	**Balance at 31st March**	**853**

Total provisions

2016/17 £000		2017/18 £000
1,431	Provision for potential uninsured losses	940
0	Provision for costs of staff released under voluntary severance	853
1,431	**Balance at 31st March**	**1,793**

22. Other long term liabilities

31/03/2017 £000		31/03/2018 £000
118,041	Net Pension Liability	85,513
53,658	PPP Liabilities	51,956
8,193	Borders Railway Liability	7,990
179,892	**Total Long Term Liabilities**	**145,459**

The Borders Railway opened to the public on Sunday 6th September 2015 running from Tweedbank in the Scottish Borders through Midlothian to Waverley Station in Edinburgh. There are four stations in Midlothian at Gorebridge, Newtongrange, Eskbank and Shawfair. Midlothian's contribution to the project was capped at £11.673 million, of which £3.209 million is an in-kind contribution and £8.464 million (at 2012 prices and subject to BCIS inflation) is payable to the

Scottish Government in planned instalments over the coming years. At the Balance Sheet date the indexed value of future year payments is £9.583 million. £1.593 million has been collected leaving a further liability of £7.990 million. Further contributions totalling £8.091 million have been secured through legally binding Section 75 planning agreements fully securing the funding for the recognised long term liability.

23. Usable reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. 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 CIES. The reserve is then appropriated 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, retirement and employee benefits and do not represent usable resources for the Council – these reserves are explained in the relevant policies.

The Council operates a Capital Fund under the terms of Schedule 3 to the Local Government (Scotland) Act 1975 and an Insurance Fund in accordance with Schedule 13 of the Local Government etc. (Scotland) Act 1994.

Movement in the Council's usable reserves are detailed in the Movement in Reserves Statement and in note 6.

31/03/2017 £000		31/03/2018 £000
-17,651	General Fund Reserve	-10,777
-29,753	HRA Balance	-33,863
-16,707	Capital Fund	-19,462
-3,100	Repairs and Renewals Fund	-2,889
-67,211	**Total Usable Reserves**	**-66,991**

24. Unusable reserves

31/03/2017 £000		Notes	31/03/2018 £000
-202,329	Capital Adjustment Account	24.1	-197,754
-118,403	Revaluation Reserve	24.2	-110,563
118,041	Pension Reserve	24.3	85,513
6,368	Employee Statutory Adjustment Account	24.4	6,327
2,500	Financial Instruments Adjustment Account	24.5	2,333
-4,585	Available for Sale Financial Instruments Reserve	24.6	-7,717
-198,408	**Total Unusable Reserves**		**-221,861**

24.1 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 (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account also contains revaluation gains accumulated on property, plant and equipment before the 1st of 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.

2016/17 £000		2017/18 £000
-208,227	**Balance at 1st April**	**-202,329**
	Adjustments to the opening balance	
0	Adjustments relating to revalued assets funded from developer contributions	-2,594
0	Adjustment relating to PPP long term liabilty	-230
-208,227	**Revised Balance at 1st April**	**-205,153**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
35,490	- Charges for Depreciation of non-current assets	29,372
13,339	- Charges for Downward Revaluation of non-current assets	12,744
187	- Amortisation of intangible assets	206
5,437	- PPE non-current assets written off on disposal or sale	2,239
-625	- Revaluation loss on disposal or sale	-301
-13,907	- Adjusting amount written out to Revaluation reserve	-9,235
22	- Net revenue expenditure financed from capital under statute (REFFCUS)	0
-45	Other movements	-203
-168,329	**Net written out amount of the cost of non-current assets consumed in year**	**-170,331**
	Capital Financing for the year:	
-7,312	- Use of Capital Receipts to finance new Capital expenditure	-2,416
1,329	- Capital Receipts transferred to the Capital Fund	319
-19,516	- Capital Grants and Contributions credited to the CIES	-16,021
-8,501	- Statutory Provision for the financing of capital investment	-9,305
-202,329	**Balance at 31st March**	**-197,754**

24.2 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 that reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2016/17 £000		2017/18 £000
-117,635	**Balance at 1st April**	**-118,403**

5,165	(Upward) / downward Revaluation of Assets	9,111
-20,510	Downward revaluation of assets and impairment losses not charged to the Surplus / (Deficit) on the provision of services	-10,806
13,907	Adjusting amount from Capital Adjustment Account	9,235
625	Accumulated losses on assets sold	301
45	Other movements	-1
-118,403	**Balance at 31st March**	**-110,563**

24.3 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 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 employer's 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.

2016/17 £000		2017/18 £000
68,145	**Balance at 1st April**	**118,041**
	Return on Pension Assets	
44,365	Actuarial (gains) / losses arising on changes in financial assumptions	-44,600
17,983	Reversals of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the CIES	25,941
-12,452	Employer's pension contributions	-13,869
118,041	**Balance at 31st March**	**85,513**

24.4 Employee Statutory Adjustment Account

The Employee Statutory Adjustment 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 carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account. 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 was -£0.041 million (2016/17 £3.078 million).

2016/17 £000		2017/18 £000
3,291	**Balance at 1st April**	**6,368**
-3,291	Settlement or cancellation of accrual made at end of preceding year	-6,368
6,368	Amounts accrued at the end of the current year	6,327
6,368	**Balance at 31st March**	**6,327**

24.5 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.

2016/17		2017/18
£000		**£000**
2,667	**Balance at 1st April**	**2,500**
-7	Proportion of equivalent interest rate calculation on lender option / borrower option loans	-8
-160	Change in share of equivalent interest rate calculation	-159
2,500	**Balance at 31st March**	**2,333**

24.6 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 prices 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 realized

2016/17		2017/18
£000		**£000**
-4,839	**Balance at 1st April**	**-4,585**
254	Revaluation of investments	-3,132
-4,585	**Balance at 31st March**	**-7,717**

25. Cash Flow Statement – operating activities

2016/17 £'000		2017/18 £'000
-30,406	**Net surplus or (deficit) on the provision of services**	**-31,034**
	Adjustment to surplus or deficit on the provision of services for noncash movements	
35,490	Depreciation	29,372
13,339	Impairment & downward revaluations (& non-sale derecognitions)	11,697
187	Amortisation	206
482	Adjustment for internal interest charged	0
15	(Increase)/Decrease in Inventories	-69
-1164	(Increase)/Decrease in Debtors	533
-31	(Increase)/Decrease in Interest and Dividend Debtors	-149
-8	Adjustment for effective interest rates	-8
5,366	Increase/(Decrease) in Creditors	10,553
74	Increase/(Decrease) in Interest Creditors	95
5,531	Movement in Pension Liability	12,072
5,457	Carrying amount of non-current assets sold	1,938
-209	Contributions to Other Reserves/Provisions	362
	Surrender of CRC allowances	262
-31	Other non-cash movements and transfers to investing activities	83
64,498		**66,947**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
40,000	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0
-7,312	Proceeds from the sale of PP&E, investment property and intangible assets	-2,098
-19,516	Capital grants included in Service expenditure and "Taxation & non-specific grant income"	-15,772
13,172		**-17,870**
47,264	**Net Cash Flows from Operating Activities**	**18,043**
	Operating activities within the cash flow statement include the following cash flows relating to interest	
262	Interest Received	772
-13,435	Interest Paid	-13,583
361	Dividends Received	371

26. Cash Flow Statement - investing activities

2016/17 £000		2017/18 £000
-49,459	Purchase of PP&E, investment property and intangible assets	-28,312
-50,000	Purchase of Short Term Investments (not considered to be cash equivalents)	-25,000
7,141	Proceeds from the sale of PP&E, investment property and intangible assets	2,416
26,416	Other Receipts from Investing Activities	48,452
-65,902	**Net Cash flows from Investing Activities**	**-2,444**

27. Cash Flow Statement - financing activities

2016/17 £000		2017/18 £000
429,000	Cash Receipts from Short and Long Term Borrowing	320,500
-1,208	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	-1,336
-408,970	Repayment of Short and Long Term Borrowing	-336,771
18,822	**Net Cash flows from Financing Activities**	**-17,607**

28. Audit fees

The Accounts Commission for Scotland has appointed Ernst and Young LLP as the Council's external auditor for the financial years 2016/17 to 2021/22.

The anticipated fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice for 2017/18 is £0.291 million (2016/17 £0.222 million).

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. All monies held in the Capital Grants Received in Advance account are as a result of developers contributions, the balances are as follows:

16,395	**Balance at 1st April**	**22,944**
11,611	New capital grants received in advance, conditions of use not met	9,219
-5,062	Amounts released to CIES, conditions of use met	-5,159
0	Adjustment in respect of prior year revaluations	-2,594
22,944	**Balance at 31st March**	**24,410**

30. 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 2017/18 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 2017-18 were declared by 8 members:

> with voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.209 million.
>
> with businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.722 million.

In addition to the above many members have relationships of 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 £0.562million (2016/17 £0.560 million There was no balance due to or from the Lothian Valuation Board as at 31 March 2018.The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.903 million of resource transfer funding to the Council in 2017/18 in respect of activities delegated to the Midlothian Integration Joint Board, as well as an additional £4.845 million in relation to Social Care Fund and £1.423 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

The Council delegated resources totalling £38.806 million to the Midlothian Integration Joint Board in 2017-18. 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 2018 the Council held £0.783 million on behalf of the Board.

31. 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 PFI/PPP contracts), together with the resources that have been used to finance them.

2016/17 £000	2016/17 £000		2017/18 £000	2017/18 £000
	310,204	**Opening Capital Financing Requirement**		**333,757**
		Capital Expenditure		
54,949		Property, Plant and Equipment	27,290	
166		Intangible Assets	216	
434		Revenue Expenditure funded from capital under statute	0	
8,193		Long Term Liabilities	-203	
	63,742			**27,303**
		Capital Financing		
-11,761		Capital Receipts	-2,098	
-13,952		Government Grants	-11,515	
-5,975		Contribution from Other Bodies	-4,257	
-8,501		Loans Fund and Lease Repayments	-9,282	
	-40,189			**-27,152**
	333,757	**Closing Capital Financing Requirement**		**333,908**
	23,553	**Increase in Capital Financing Requirement**		**151**

32. Commitments under capital contracts

As at 31 March 2018, the Council was contractually committed to capital works which amounted to £23.022 million (31 March 2017 equivalent £10.062 million).

The value of work completed as at 31 March 2018 has been established using a stage of completion methodology based on Contract Administrator’s Certificates obtained at year end.

The main capital contracts the Council is committed to are as follows:-

- HRA Phase II Housing: Site 53, Morris Road, Newtongrange. £9.874 million original contractual commitment; £9.866 million remaining commitment outstanding;
- HRA Phase II Housing: Site 32/34, Newbyres, Gorebridge. £8.110 million original contractual commitment; £8.044 million remaining commitment outstanding;
- Modular Units for Primary Schools – Various. £1.960 million original contractual commitment; £1.960 million remaining commitment outstanding.

- HRA Phase II Housing: Site 23, Woodburn Terrace, Dalkeith. £1.444 million original contractual commitment; £1.429 million remaining commitment outstanding.
- The new Loanhead hub. £13.879 million original contractual commitment; £0.715 million remaining commitment outstanding;

The total value of retentions held as at 31 March 2018 amount to £0.951 million.

33. Public-private partnership

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as 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 the PFI 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 of 8.99% on the outstanding Balance Sheet liability for Dalkeith Schools PPP and 7.44% for Midlothian Primary Schools, debited to the Financing and Investment Income and Expenditure line in the CIES;

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;

Payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);

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.

The Council has entered into five Public Private Partnerships.

The first is for the provision and facilities management of the Dalkeith School Campus and is a 30 year contract with Dalkeith SPV Ltd. 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 or voluntary termination with one contract months' notice.

The second is a contract with Midlothian Schools Ltd 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 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 or voluntary termination with 6 months' notice.

The third is for the provision and lifecycle maintenance of the Newbattle Centre and is a 25 year contract with hubCo. At the 31 March 2018 the contract was still in the construction phase. The facility opened in financial year 2018/19 on 25 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 or voluntary termination with variable notice periods as defined in the contract.

The fourth is for the provision of a food waste treatment plant at Millerhill, jointly procured between Midlothian and the City of Edinburgh Council. The contract is for 20 years and 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 a 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 shall be 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.

The fifth is for the provision of a residual waste treatment plant at Millerhill, jointly procured between Midlothian and the City of Edinburgh Council. The contract is for 25 years with an expected commissioning start date of October 2018 and full service commencement in May 2019. The asset is to 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 contact (contract end date 6th of May 2044) to the ensure that is has been so 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 an Partner Council Default notice, or voluntary termination by the Partner Councils with variable notice periods as defined in the contract.

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

The value of assets held under PFI arrangements at 31 March 2018 is £64.284 million (2016/17 £65.388 million). The movement is in year depreciation of £1.117 million, written back depreciation on revaluation £0.000 million, revaluation £0.000 million and additions £0.013 million (2016/17 £1.237 million depreciation, £2.929 written back depreciation, £1.718 million revaluation and £0.045 million additions). There is a deferred liability at 31 March 2018 for the financing of these assets of £53.406 million (2016/17 £54.972 million). Details of payments to be made under PFI arrangements are:

During the year a total of £1.336 million (2016/17 £1.208 million) was paid in relation to finance lease liabilities under the PFI contracts.

Dalkeith Campus

Period	Liability £000	Interest £000	Service Charge £000	Total £000
Within 1 year	697	2,230	1,954	4,881
Within 2 to 5 years	3,530	8,177	8,318	20,025
Within 6 to 10 years	6,712	7,923	11,623	26,258
Within 11 to 15 years	10,657	3,977	13,150	27,784
Within 16 to 20 years	1,421	138	1,508	3,067
Within 21 to 25 years	0	0	0	0
Total Contract	**23,017**	**22,445**	**36,553**	**82,015**

Primary Schools

Period	Liability £000	Interest £000	Service Charge £000	Total £000
Within 1 year	752	2,216	1,943	4,911
Within 2 to 5 years	3,598	8,276	8,272	20,146
Within 6 to 10 years	6,185	8,657	11,557	26,399
Within 11 to 15 years	8,795	6,047	13,076	27,918
Within 16 to 20 years	11,059	2,337	13,284	26,680
Within 21 to 25 years	0	0	0	0
Total Contract	**30,389**	**27,533**	**48,132**	**106,054**

34. Retirement benefits

The Council participates in two different pension schemes which meet 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 as it is a national 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 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.

In 2017/18 the Council paid £6.098 million (2016/17 £5.851 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 17.2% (2016/17 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 – Retirement Benefits.

In 2017/18 the Council paid an employer contribution of £13.869 million (2016/17 £12.452 million) into the Lothian Pension Fund, representing 21.8% (2016/17 21.8%) 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 2019 will be £12.867 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 CIES and the Movement in Reserves Statement

CIES

2016/17 £'000		2017/18 £'000
	Net cost of services:	
15,448	Current Service Cost	22,694
98	Past Service Costs (including curtailments)	66
	Net operating expenditure:	
16,332	Interest cost	15,898
-13,895	Expected return on scheme assets	-12,717
17,983	**Net charge to CIES**	**25,941**
	Adjustment between accounting basis & funding basis under regulation	
-17,983	Reversal of net charges made for retirement benefits in accordance with IAS 19	-25,941
12,452	Employers contributions payable to pension fund	13,869

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

In addition to the recognised gains and losses included in the CIES, actuarial gains of £44.601 million (2016/17 gain of £44,365 million) were included in other comprehensive income and expenditure in the CIES.

Assets and Liabilities in relation to retirement benefits

2016/17	Reconciliation of present value of the scheme liabilities:	2017/18
£000		**£000**
£464,544	Opening Balance	**£605,968**
15,448	Current Service Costs	22,694
16,332	Interest Cost	15,898
3,374	Contribution by Members	3,629
120,235	Actuarial losses/(gains)	-54,266
98	Past Service Costs (including curtailments)	66
-798	Estimated Unfunded Benefits Paid	-828
-13,265	Estimated Benefits Paid	-13,614
605,968	**Balance at 31 March**	**579,547**

2016/17	Reconciliation of fair value of the scheme assets:	2017/18
£000		**£000**
396,398	Opening Balance	487,926
13,895	Expected return on Assets	12,717
3,374	Contributions by Members	3,629
11,654	Contributions by the Employer	13,041
798	Contribution in respect of unfunded benefits	828
75,870	Actuarial gains / (losses)	-9,665
-798	Unfunded Benefits paid	-828
-13,265	Benefits paid	-13,614
487,926	**Balance at 31 March**	**494,034**

The expected return on 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 £579.547 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £85.513 million.

However, under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. The fund's actuary reported that, at 31 March 2017, the funding level was 98% and that a period of 20 years has been adopted in assessing the level of contribution required to fund that deficiency. The employer's contribution in 2017/18 was 348% of employee's contributions.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the protected unit credit method, an estimate of the pensions that will be payable in future years are dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by the actuary and are based on the latest full valuation of the scheme as at 31 March 2017.

The main assumptions used by the actuary have been:

2016/17		2017/18
	Longevity at 65 for current pensions (Mortality):	
22.1	Men (years)	21.7
23.7	Woman (years)	24.3
	Longevity at 65 for future pensions (Mortality):	
24.2	Men (years)	24.7
26.3	Woman (years)	27.5
2.40%	Inflation / Pension Increase Rate	2.40%
4.40%	Salary Increase Rate	4.10%
2.60%	Discount Rate	2.70%

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 Funds Assets consist of the following categories, by proportion of the total assets held:

31/03/2017		Period Ended 31 March 2018 Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of Total Assets
	Equity Securities				
16%	Consumer	67,689.7		67,689.7	14%
16%	Manufacturing	73,550.7		73,550.7	15%
7%	Energy and Utilities	30,905.8		30,905.8	6%
7%	Financial Institutions	43,890.5		43,890.5	9%
6%	Health and Care	24,220.5		24,220.5	5%
5%	Information Technology	30,118.8		30,118.8	6%
7%	Other	31,002.2		31,002.2	6%
	Debt Securities				
0%	Corporate Bonds (investment grade)				0%
0%	Corporate Bonds (non investment grade)		9,625.7	9,625.7	2%
0%	UK Government	47,895.5		47,895.5	10%
10%	Other				0%
	Private Equity				
14%	All	1,574.5	7,445.4	9,019.9	2%
	Real Estate				
6%	UK Property		31,753.3	31,753.3	6%
0%	Overseas Property		516.6	516.6	0%
	Investment Trusts and Unit Trusts				
1%	Equities	4,748.5		4,748.5	1%
0%	Bonds				0%
0%	Hedge Funds				0%
0%	Commodities				0%
0%	Infrastructure		58,550.8	58,550.8	12%
0%	Other		1,128.3	1,128.3	0%
	Derivatives				
0%	Inflation				0%
0%	Interest Rate				0%
0%	Foreign Exchange	227.3		227.3	0%
0%	Other				0%
	Cash and Cash Equivalents				
5%	All	29,189.9		29,189.9	6%
100%	**Totals**	**385,014**	**109,020**	**494,034**	**100%**

Projected defined benefit cost for the period to 31 March 2019

Analysis of projected amount to be charged to operating profit for the period to 31 March 2019

Period ended 31 March 2019	**Assets**	**Obligations**	**Net Liability / (asset)**	
	£000	£000	£000	% of pay
Projected Current Service cost *		23,088	-23,088	-38.20%
Past service cost including curtailments		-	-	-
Effect of settlements	-	-	-	-
Total Service Cost	**0**	**23,088**	**-23,088**	**-38.20%**
Interest income on plan assets	13,380		13,380	22.10%
Interest cost on defined benefit obligation		15,814	-15,814	-26.10%
Total Net Interest Cost	**13,380**	**15,814**	**-2,434**	**-4.00%**
Total Included in Profit and Loss	**13,380**	**38,902**	**-25,522**	**-42.20%**

*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 £60.518 million.

The contributions paid by the Employer are set by the Fund Actuary at each triennial valuation (the most recent being as at 31 March 2017), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to March 2019 are set out in the Rate and Adjustments certificate.

Investment Returns

Actual Returns from 31 March 2017 to 31 March 2018	1.4%
Total Returns from 1 April 2017 to 31 March 2018	1.4%

Local Government legislation provides that Local Authorities have an obligation to meet their share the expenditure of the Joint Boards of which they are constituent members. At 31st March 2018 the liability for Pensions sits at £5.933 million. As a consequence the Council has additional liabilities arising from the pension deficit of the Lothian Valuation Joint Board.

35. Contingent liability

The council recognises the potential for compensation claims deriving from the 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 some will date post-reorganisation and relate to Midlothian Council. To date there are three ongoing cases. These are currently with our insurers, the extent of our cover and the level of excess payable is being investigated.

Whilst the Council has settled the majority of Equal Pay claims and made appropriate provision for those outstanding, the Council recognises the potential for additional unknown liabilities resulting from historic pay arrangements.

36. Contingent assets

The Council procured the completion of 64 council houses in Newbyres Crescent and Gore Avenue in 2009. In September 2013 it was discovered that the homes contained high levels of carbon dioxide due to the ingress of ground gasses from disused mine workings beneath the properties. The houses had been built without an adequate ground gas defence system. Due to public health concerns, the Council decided in June 2014 to move residents out of the properties. The houses were subsequently demolished in March 2016. The Council has lodged a formal legal claim in the Court of Session against certain contractors and consultants in an effort to recover its losses. The claim is currently progressing through the court.

37. Midlothian council trusts, bequests, common good fund and community funds

There are some 18 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:

31/03/2017		31/03/2018
£000		£000
14	Dalkeith Common Good	13
2	Penicuik Common Good	2
94	Community Mining Funds	56
60	Other Funds	20
170	**Total**	**91**

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 which are held in separate bank accounts.

38. Post balance sheet events

There are no post balance sheet events.

39. General Fund Balance

The following amounts have been earmarked within the General Fund Balance.

	Balance at 1 April 2016 £'000	Transfers Out 2016/17 £'000	Transfers In 2016/17 £'000	Balance at 1 April 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 1 April 2018 £'000
General Fund Balance	**-24,625**			**-17,651**			**-10,777**
Movement in Earmarked Reserves							
Scheme of Devolved Budget Management carry forwards	-4,559	4,559	-3,635	-3,635	3,635	-3,244	-3,244
Business Transformation Programme	-2,918	161	-1,850	-4,607	2,592	0	-2,015
Delegated to schools under the Devolved School Management policy	-1,020	1,020	-1,425	-1,425	1,425	-1,181	-1,181
Borders Rail	-69	69	-196	-196	196	0	0
Total in Earmarked Reserves	**-8,566**	**5,809**	**-7,106**	**-9,863**	**7,848**	**-4,425**	**-6,440**
Uncommitted General Fund Balance at 31 March	**-16,059**			**-7,788**			**-4,337**

40. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2017/18 (The Code) requires local authorities to consider their interests in all types of entity. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with other entities. These organisations are entirely independent of the Council under law and for taxation.

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

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

Goodwill
The Council has not paid any consideration for its interests 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 net assets or liabilities of each entity is incorporated and adjusted each year by 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 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 or 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
	%	£000			
Subsidiaries					
Trusts, bequests, common good fund and community funds	100	91	91	-1	79
Pacific Shelf 826 ltd	100	0	38	0	2
Associates					
Lothian Valuation Joint Board	9.19	220	740	-1,509	486
Midlothian Integration Joint Board	50	450	0	-69	-450

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

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

Subsidiary	Nature	Accounts Available from
Trusts, bequests, common good fund	To award grants across Midlothian.	Midlothian Council, Midlothian House Dalkeith

and community funds		
Pacific Shelf 826 ltd	Property Development	Midlothian Council, Midlothian House 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, Waverley 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 Dalkeith

Non-material interests in other entities

In addition to the organisations outlined above, the Council also has an interest in the following organisations:

Seemis Group LLP who provide Scottish Local Authorities with an Education Management system. Midlothian have a 1.90% interest in Seemis. Net assets at 31st March 2018 were £2.859 million which would equate to a share of £0.054 million for Midlothian.

Housing Revenue Account

Income and expenditure account

The HRA reflects the statutory requirement to account separately for local authority housing provision, as defined in the Housing (Scotland) Act 1987. The Income and Expenditure Statement reports the net cost for the year and shows how these costs were funded from rents and other income. The Movement in HRA balances reconciles the financial position shown in the Comprehensive Income and Expenditure Statement to the movement in the HRA reserve for the year.

For the year ended 31 March 2018

The following statement shows how much the Council spent in fulfilling its statutory responsibility to provide, improve and manage its Housing Stock.

2016/17 £000		2017/18 £000	per house per week £
	Income		
24,966	Gross dwelling rents	26,676	75.52
541	Non dwelling rents	344	0.97
53	Other Income	38	0.11
25,560		**27,058**	**76.60**
	Expenditure		
5,407	Repairs and Maintenance	5,536	15.67
4,692	Supervision and Management	4,966	14.06
7,098	Depreciation of Non-Current Assets	7,125	20.17
11,542	Impairment of Non-Current Assets	9,330	26.41
1,940	Other Expenditure	1,881	5.33
60	Increase / (Decrease) in Bad Debt Provision	600	1.70
30,739		**29,438**	**83.34**
5,179	**Net Cost of HRA services per the whole Council Comprehensive Income and Expenditure Account**	**2,380**	**6.74**
250	HRA share of Corporate and Democratic Core	250	0.71
5,429	**Net Cost of HRA Services**	**2,630**	**7.46**
	HRA share of the operating income and expenditure included in the whole Council accounts		
-1,804	Loss / (Gain) on sale of HRA non-current assets	-432	-1.22
5,091	Interest Payable and similar charges	6,226	17.63
-222	Interest and Investment Income	-207	-0.59
94	Net Defined Benefit Liability and Expected Return on Pension Asset	123	0.35
8,588	**Deficit / (Surplus) for the year on the HRA Services**	**8,340**	**23.62**

Movement on the HRA Statement for year ended 31 March 2018

This statement shows how the balance for the year on the HRA Comprehensive Income and Expenditure Account reconciles to the balance for the year on the Housing Revenue Account.

£000		£000	£
8,588	**Deficit for the year on the HRA Income & Expenditure Account**	**8,340**	**23.62**
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
1,804	Gain/(loss) on sale of HRA non-current assets	432	1.22
-14,978	Transfer to/(from) Capital Adjustment Account	-12,372	-35.02
-254	HRA share of contributions to/from pension reserve	-510	-1.44
-4,840	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**-4,110**	**-11.62**
-24,913	**Housing Revenue Account Balance brought forward**	**-29,753**	**-84.23**
-29,753	**Housing Revenue Account Balance carried forward**	**-33,863**	**-95.85**

Notes to the Housing Revenue Account

1. General

This account reflects the statutory requirement to account for local council housing provision, as defined in the Housing (Scotland) Act 1987. It shows the major elements of housing revenue expenditure and capital financing costs, and how these are met by rents and other income.

2. Housing Stock

At 31 March 2018 the Council had 6,793 houses (31 March 2017 6,842) which can be analysed as follows:

2016/17	**Type of Dwelling**	**2017/18**
Number		Number
855	1 Bedroom	878
3,798	2 Bedroom	3,767
1,863	3 Bedroom	1,828
316	4 Bedroom	310
10	5 / 6 Bedroom	10
6,842	Total	**6,793**

3. Rent Arrears

At the end of the year rent arrears amounted to £3.229 million (2016/17 £2.573 million) for which a provision for bad and doubtful debts of £1.6 million (2016/17 £1 million) exists.

4. Void Properties

The total value of uncollectable void rents for main provision properties amounted to £0.554 million (2016/17 £0.402 million).This has been netted against rental income.

Council Tax Income Account

Income and expenditure account

For the year ended 31 March 2018

Councils raise taxes from residents by way of a property tax – the 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 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.

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).

2016/17		**2017/18**
£000		**£000**
47,474	Gross Council Tax levied and Contributions in Lieu	52,045
	Less :	
5,039	Discounts	5,211
4,730	Council Tax Reduction Scheme	4,759
1,267	Write-off of Uncollectable Debts and Allowances for Impairment	1,398
36,438		**40,677**
-23	Adjustments to previous years Community Charge and Council Tax	21
36,415	**Transfers to the General Fund**	**40,698**

Notes to the Council Tax Income Account

Calculation of the Council tax base for the year 2017/18

Property Bands

	A - disabled	A	B	C	D	E	F	G	H	Total
Properties	0	979	12,528	10,866	5,380	4,864	3,410	2,128	171	40,326
Disabled relief	2	37	25	-37	2	-3	-7	-18	-1	0
Less										
Exemptions	-	60	437	269	84	194	48	31	3	1,126
Discounts (25%)	1	147	1,438	910	377	247	111	59	4	3,294
Discounts (50%)	-	1	6	5	2	2	3	2	-	21
Other Discounts	-	3	22	13	7	4	4	3	2	58
Council Tax Reduction Scheme	1	250	2,605	1,475	284	120	38	22	-	4,795
Effective properties	-	555	8,045	8,157	4,628	4,294	3,199	1,993	161	31,032
Ratio to band D	5/9	6/9	7/9	8/9	9/9	473/360	585/360	705/360	882/360	
Band D equivalents	-	370	6,257	7,251	4,628	5,642	5,198	3,903	394	33,643
Contributions in lieu – Band D equivalents										220
Total Council Tax Base										**33,863**
Provision for non payment										-1,132
Total										**32,731**

Number of 'effective' properties and charges for each band

Band	A - disabled	A	B	C	D	E	F	G	H	Total
Numbers	-	555	8,045	8,157	4,628	4,294	3,199	1,993	161	31,032
£	692.22	830.66	969.11	1,107.55	1,246.00	1,637.10	2,024.75	2,440.08	3,052.70	

Non-Domestic Rates Income Account

Income and expenditure account

For the year ended 31 March 2018

The rates collected from non-domestic ratepayers during the year are shown below. Any difference between the rates collected and the amount the Council is guaranteed to receive under the National Pooling arrangements is adjusted via the Government's Revenue Support Grant to the Council. The non-domestic rate income is redistributed from the national pool in proportion to the resident population of each local Council and therefore bears no direct relationship with the amount collected by those authorities.

£000		£000
39,024	Gross rates levied	40,828
	Less:	
7,380	Reliefs and other deductions	8,609
500	Write-offs of uncollectable debts and allowance for impairment	513
2,291	Adjustments to previous years	-866
28,853	**Net Non Domestic Rate Income**	**32,572**
0	Non-Domestic Rate Income Retained by Authority (BRIS)	0
28,853	**Contribution to Non-Domestic Rate Pool**	**32,572**
	Allocated:	
28,934	Contribution to national non-domestic rates pool	32,641
-81	Midlothian Council	-69
28,853		**32,572**

Notes to the Non-Domestic Rates Income Account

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £29.273 million (2016/17 £32.026 million).

2. Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Midlothian. The non-domestic rate poundage is determined by the Scottish Government, and was 46.6p per £ (2016/17 48.4p per £) where the rateable value was less than or equal to £29,000 and 49.2 per £ (2016/17 51p per £) where the rateable value exceeded £51,000.

3. Small Business Bonus Scheme - From 1 April 2017, a ratepayer who occupies or is entitled to occupy one or more non-domestic properties which have a combined rateable value of £18,000 or less then they may be eligible for a discount of between 25% and 100% on their bill. In addition, where the cumulative rateable value of a businesses properties 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.

4. Rateable Value as at the start of the year

Number 2016/17	Rateable Value 2016/17 £000		Number 2017/18	Rateable Value 2017/18 £000
1,699	45,934	Shops, Offices and Other Commercial Subjects	1,862	48,898
928	14,609	Industrial and Freight Transport	937	17,258
295	17,391	Miscellaneous (Schools etc)	302	20,705
2,922	**77,934**		**3,101**	**86,861**

The Business Rate Incentivisation Scheme (BRIS) permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government

Independent Auditor’s Report

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.

1. Gross Expenditure

This includes all expenditure attributable to the service and activity including employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and capital charges.

2. Gross Income

This includes the charges to individuals and organisations for the direct use of the Council's services.

3. Corporate and Democratic Core

Corporate and Democratic Core costs include the costs of policy making and all other Councillor based activities together with costs which 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.

4. Non Distributable Costs

Non Distributable Costs represent costs which 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.

5. Employee Costs

This includes salaries, wages, overtime, bonus, enhancements, employer's pension and national insurance contributions, travelling and subsistence expenses and other employees' allowances.

6. Property Costs

This includes rents and rates, property insurance, repairs and maintenance of property, upkeep of grounds, heating and lighting, furnishings and fittings and allocations of central support for accommodation costs.

7. Supplies and Services

This includes food, materials, books, uniforms and protective clothing, the purchase and maintenance of equipment and tools and various services carried out by external contractors.

8. Transport Costs

This includes the costs of operating vehicles and plant such as fuel, repairs and maintenance, tyres, licenses, insurance and procurement of transport for school children.

9. Administration

This includes printing and stationery, advertising, postages, telephone costs and central support services allocations for administration.

10. Financing Costs

This includes the annual costs of financing the sums borrowed by the Council to finance its capital repayment of loans, interest charges and debt management expenses, as well as external repayments for operational leases.

11. Capital Charges

A charge to service revenue accounts to reflect the cost of non-current assets used in the provision of services.

12. Payments to Other Bodies

This includes grants to individuals and organisations, bursaries and payments to other local authorities, Health Boards, Joint Boards and organisations and agencies providing services complementing or supplementing the work of the Council.

13. 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

14. Other Costs

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

15. Specific Government Grant

This includes grants received from Central Government in respect of a specific purpose or service e.g. housing benefit, education, community regeneration and community services.

16. 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.

17. Intangible Assets

These are non-financial assets that do not have any physical substance but are identifiable and are controlled by the Council through custody or legal rights.

18. Non-Current Assets

These are created by capital expenditure incurred by the Council. This includes buildings and property, vehicles, plant and machinery, roads, computer equipment etc.

19. Revaluation Reserve

The Revaluation Reserve records unrealized revaluation gains arising (since 1 April 2007) from holding non-current assets.

20. Capital Adjustment Account

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the Code.

21. Useable Capital Receipts Reserve

The Useable Capital Receipts Reserve represents the capital receipts available to finance capital expenditure in future years, after setting aside the statutory amounts for the repayment of external loans.

22. Pension Reserve

This represents the difference between accounting for pension costs in line with UK Accounting Standards, and the funding of pension costs from taxation in line with statutory requirements, and is equal to the change in the pensions liability, i.e. the commitment to provide retirement benefits.

23. 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.

24. 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.