Midlothian Council

Audited

Financial Statements

2018/19

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Management Commentary by the Head of Finance and Integrated Service Support

Introduction

These Financial Statements present the financial performance of Midlothian Council for the year to 31 March 2019. They have been prepared in accordance with the International Financial Reporting Standards (IFRS) based on the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (The Code) and are by necessity technical in places.

The purpose of the management commentary is to provide the reader with an overview of the Council's financial performance for the year, its financial outlook and risks and non-financial strategic and contextual information about the Council.

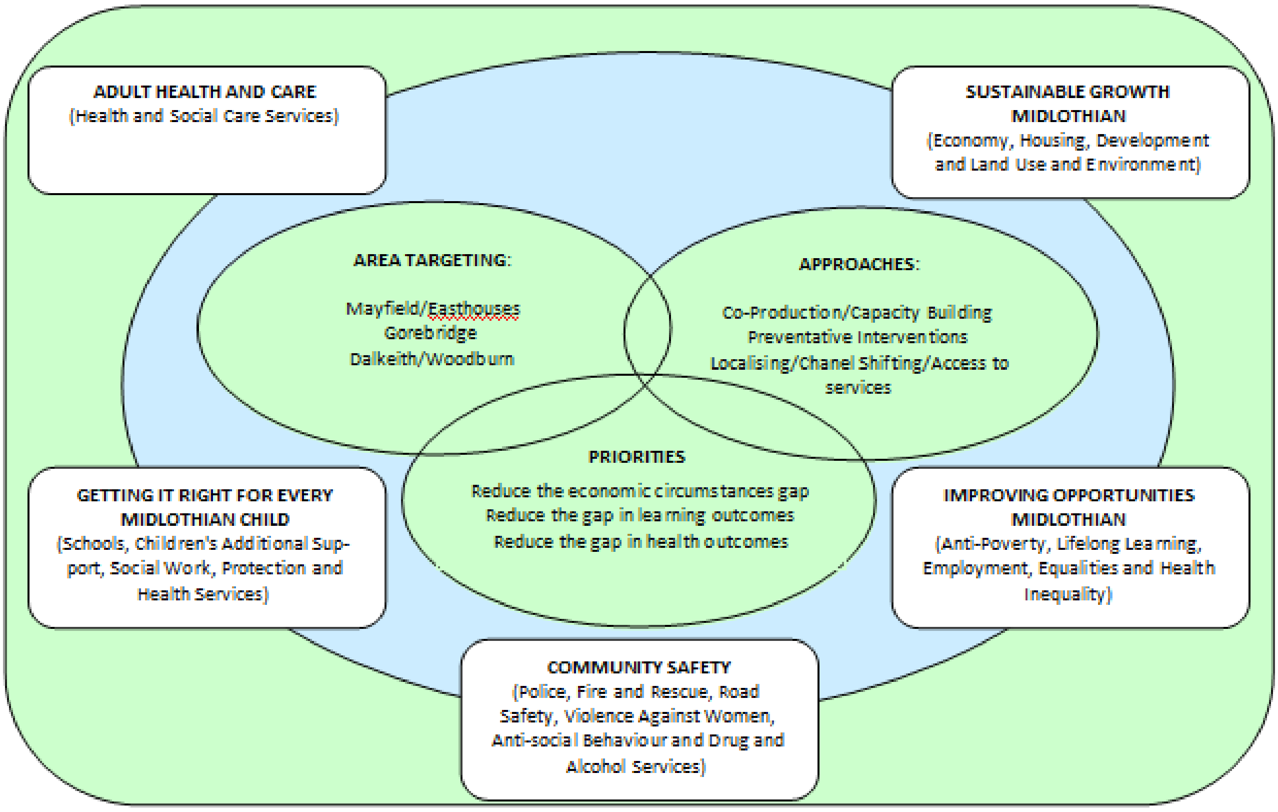
Council Priorities

Midlothian Council's priorities are set out in the Single Midlothian Plan (SMP) and it delivers these priorities through the Community Planning Partnership (CPP). The Council outlines its key objectives and associated performance indicators in annual service plans formally approved each year. These plans primarily relate to the Council's core, and often, statutory duties, which are mainly the responsibility of the local authority rather than the wider CPP.

The top three priorities in the SMP were revised during the year and are extended to 2019-22 as follows:

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

The SMP incorporates five overarching thematic groups which support the achievement of outcomes. This thematic approach is used for quarterly public performance reporting and are demonstrated in the chart below:



The Council has a number of large-scale projects underway including the development of a new town at Shawfair and accelerating economic growth across the region as part of the Edinburgh and South East Scotland Region City Deal. The Borders Rail line continues to have a positive impact on east Midlothian and master planning activities along the line will increase benefits across a number of communities including Stobhill, Newtongrange, Mayfield and Gorebridge.

The Council demonstrates a strong commitment to partnership working across all aspects of its delivery. This is exemplified by: Community Planning with the third and private sector; Public Protection jointly with East Lothian and Strategic Partners; the Education Service including the Lifelong Learning and Employability Service links with partners, volunteers, colleges and universities; the integration of Health and Social Care services and through the Midlothian Integrated Joint Board.

The CPP partnerships have delivered improvements in the following outcomes:

- Positive destinations for young people – 5 year positive trend;
- Closing the learning outcome gap – significant improvements for pupils residing in Scottish Index of Multiple Deprivation (SIMD) top 20% with an overall trend of rising attainment;
- Improved community safety – reduced crime rates and increased support for key groups;
- Preventative work for those in protected characteristic groups - including recovery cafés, addiction treatment services and reducing isolation amongst older people;

- Growth in the local economy - improvements in employment rates, qualifications levels of working age adults and Gross Value Added per head, increased numbers of local Small to Medium Entities, expansion of Midlothian Science Zone now employing over 1,000 people;
- Increased public engagement - effective partnership working in adult health and care, voluntary sector summits, service user joint planning groups, participatory budgeting, neighbourhood planning using place standard and community asset transfers;
- Housing – effective partnership between Council and Registered Social Landlords resulting in growth in social housing, new homelessness support and accommodation with third sector support.

Strategic Plans and Performance

The following is an extract from the 2018/19 published Balanced Scorecard which provides further details for the key indicators used for the three key priorities identified earlier:

Reducing the gap in economic circumstances

PI Description	Target	2016/17 Value	2017/18 Value	2018/19 Value
Amount generated by Midlothian Council Welfare Rights Team (WRT)	£2,500,000	£2,874,343	£3,408,151	£4,407,373
% of those leaving school secure a positive destination	95%	95.10%	95%	94.35%
Midlothian Citizen Advice Bureaux (CABs) will generate an income maximization of £625k per quarter	£2,500,000	£3,820,265	£3,704,161	£3,352,380
Increase the number of households accessing energy saving or fuel poverty advice and assistance schemes	3,000	3,278	2,583	data not yet available
% of young people approaching the homelessness service who engage with Youth Homelessness Prevention Service	95%	33%	65%	data not yet available
Number of new homes completed	165	80	114	0

Data Only

Number of new business start-ups assisted in Midlothian area of Borders Rail Line corridor	n/a	100	202	172
Number of LEADER projects funded (cumulative)	n/a	10	16	17

As demonstrated where targets have been allocated Midlothian Council has met or superseded the allocated targets with the exception of school leavers secured in an initial positive destination which is only slightly off target and the number of new homes completed although 157 homes are due to be completed by the end of 2019.

Reducing the gap in health outcomes

PI Description	Target	2016/17 Value	2017/18 Value	2018/19 Value
Offer immediate mental health assessments through the new Gateway pilot project. Run 2 sessions a week across Midlothian and provide 200 mental health assessments	200	395	237	287
Recovery College: number of people engaging in education, training, volunteering and employment	74	43	84	75
Data only				
Number of Health & Social Care staff who have participated in face to face or on-line training (in health inequalities)	n/a	233	88	131
The number of service users/patients supported through Community Health and Inequalities Team	n/a	3,736	178	193
Number of Health & Social Care staff who have participated in face to face or on-line training (cumulative)	n/a	n/a	1,741	1,595

Reducing the gap in learning outcomes

PI Description	Target	2016/17 Value	2017/18 Value	2018/19 Value
Average primary school attendance	96.50%	95%	94.47%	94.86%
Average secondary school attendance	92%	90.24%	89.39%	89.34%
SEEMiS Exclusion data - Primary (2% reduction)	72	101	74	94
SEEMiS Exclusion data - Secondary (2% reduction)	311	318	299	210
Number of eligible 2 year olds in receipt of Early Learning and Child Care	200	171	161	184
Increase % of NVQ4 and above qualification levels of Midlothian residents	40.90%	38.50%	38.50%	41.80%
Midlothian residents with no qualifications have reduced	7%	6.40%	6.40%	7.30%
Data Only				
Improvement in the percentage of pupils from SIMD deciles 1 and 2 pupils achieving the expected CfE level by the end of P1, P4,P7 and S3	Data Only	n/a	65.40%	72.47%
Percentage of increase in PIPS score achieved by P1 pupils from SIMD deciles 1 and 2 between entry and exit compared to the Midlothian average improvement	Data Only	81.20%	132%	n/a

Financial Performance

The Council’s financial performance is presented in the Comprehensive Income and Expenditure Account (CIES) on page 33. 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 54, the Movement in Reserves Statement on page 36 and in more detail in note 6, adjustments between accounting basis and funding under regulations, on page 58.

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 outturn position for the General Fund compared to budget in 2018/19 is shown in the table below. Full details were reported to Midlothian Council on 25th June 2019 and are available on the Council's website.

The Expenditure Funding Analysis (EFA) provides the link between the council's budget monitoring reports and the figures in the main financial statements.

Midlothian Council Budget Monitoring

Service Area	**Budget £000**	**Net Expenditure £000**	**(Under) / Overspend £000**
Management	1,855	1,913	58
Children's Services	15,348	15,722	374
Communities and Economy	3,419	2,574	-845
Education	90,293	89,189	-1,104
Adult Social Care - Delegated	39,932	39,932	0
Adult Social Care -None Delegated	802	806	4
Customer and Housing Services	10,389	11,296	907
Commercial Services	14,394	14,701	307
Finance and Integrated Service Support	9,933	10,408	475
Properties and Facilities Management	13,708	14,625	917
Lothian Valuation Joint Board	551	523	-28
Central costs	50	549	499
Non-distributable costs	1,494	1,358	-136
Loan charges	7,560	6,228	-1,332
CFCR	60	60	0
NDR Discretionary Relief	70	160	90
Investment Income	-406	-438	-32
Savings Targets	-351	0	351
Allocations to HRA, Capital Account etc.	-4,844	-4,860	-16
Net General Fund Expenditure	**204,257**	**204,746**	**489**
Less Funding:			
Scottish Government Grant	154,302	154,847	-545
Council Tax Income	47,319	47,758	-439
General Fund Utilisation of Reserves	**2,636**	**2,141**	**-495**

The most significant areas contributing to adverse variances against budget were:

- Demand led pressures of £1.714 million including £0.719 million for the Community Care Resource Panel and Homecare packages, residential placements in Children's Services of £0.716 million and bed and breakfast expenditure of £0.227 million for homeless clients;
- As in previous years the Council encountered slippage in delivering the package of £9.356 million of transformational, operational and service cost reductions and income generation measures approved by Council. Actual savings achieved in the year were £6.684 million;
- Housing benefit subsidy of £0.533 million as a consequence of DWP rule changes and an increase in the volume and value of outstanding debt;

- Insurance settlements of £0.374 million as a consequence of the unusually high volume of claims during the severe winter of 2017/18 and a higher than anticipated volume and value of claims made during the 2018/19 winter;
- Price inflation and policy related pressures on energy spend of £0.238 million.

These were more than offset by favourable movements totalling £5.011 million. These included:

- A £1.332 million saving on loan charges reflecting a revised methodology used to apportion costs associated with external borrowing;
- An underspend in Schools of £0.461 million after allowing for carry forwards of a maximum of 1% in accordance with current Devolved School Management rules;
- A continued growth of properties in Midlothian generated an improvement on budget of £0.439 million for Council Tax Income;
- One-off Scottish Government Grant funding of £0.545 million to partially offset costs associated with the severe winter and also as a result of distribution of grant which in some areas was higher than anticipated;
- Planning and Building Warrant fee income exceeding budget by £0.528 million;
- The impact of vacant posts across the Council savings £1.186 million;
- The impact of the Midlothian Integrated Joint Board Recovery Plan of £0.524 million.

The movement in General Fund Reserves is demonstrated in the table below. The Council approved a Reserves Strategy in February 2019 setting the minimum level of uncommitted reserve at £3.3 million.

General Fund Reserve	Uncommitted Reserves	Earmarked Reserves	Total Reserves
Balance Brought Forward	(4,337)	(6,440)	(10,777)
(Increase in)/Use of Balances	233	1,907	2,140
General Fund Reserve Balance	**(4,104)**	**(4,533)**	**(8,637)**

The earmarked element of the reserve includes budgets provided for specific purposes where spend was carried forward into 2019/20 of £3.220 million, budgets for schools in accordance with the Scheme of Devolved School Management of £0.364 million and funding set aside to support the Council Transformation Programme of £0.949 million.

In line with previous Council decisions a number of specific initiatives were funded from earmarked reserves during the year including staff severance costs of £0.783 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 table below provides analysis of financial performance for 2018/19

2017/18 £000's	Housing Revenue Account Balance	2018/19 £000's
(29,753)	Opening Balance	(33,862)
(515)	Positive Variances	(824)
(3,594)	Planned Increase of HRA Reserve	(4,398)
(33,862)	**Closing Balance**	**(39,084)**

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. The Council had 6,846 houses at the 31st March 2019.

HRA Capital

In 2018/19 £8.4 million (2017/18 £3.9 million) was invested in increasing the number of council houses and £6.3 million (2017/18 £4.7 million) on SHQS improvement works and other adaptations. In the period to 31 March 2024 it is planned to invest a further £175.5 million on increasing council housing stock and £31.8 million on SHQS improvements.

General Fund 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, as illustrated in the table below.

2017/18 £m's	Capital Spend	2018/19 £m's
8.1	School Estate	4.6
2.4	Roads, Pavements and Street Lighting	3.6
1.5	Fleet Replacement and Upgrades	0.8
1.5	Digital Assets	2
1.4	Centralised Property Upgrades	3.1
2	Other Capital Projects	4.1
16.9	**Total Spend**	**18.2**

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 30 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.

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 outturn capital financing requirement compared to the actual external borrowing is shown in the table below:

2017/18 £000's	**Capital Financing Requirement**	**2018/19 £000's**
241,031	Actual External Borrowing	237,279
280,248	Capital Financing Requirement	274,879
39,217	**Under Borrowed**	**37,600**

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

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 2018/19 (2017/18 £482.021 million) 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 £325.196 million for 2018/19 (2017/18 £318.647 million) is an estimate of the most likely maximum debt requirement and represents the limit beyond which external debt is not expected to exceed.

The ratio of financing costs to net revenue stream represents the proportion of the budget 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 and new primary school facilities in the county. There will also be capital investment to complement the new Design, Build, Finance and Maintain (DBFM) projects for the Newbattle Centre and 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 2019 total borrowing amounted to £237.279 million which is a £3.752 million decrease from the position at 31st March 2018. During 2018/19 new long term borrowing of £10.000 million was taken from Deutsche Pfandbriefbank to refinance a maturing PWLB loan. The average rate of interest paid on all external debt increased marginally to 3.64% in 2018/19 from 3.37% in 2017/18. The internal loans fund rate increased from 3.08% in 2017/18 (2nd lowest in mainland Scotland) to 3.12% in 2018/19 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 15 to the Financial Statements.

Assets and Liabilities

The Balance Sheet on page 38 summarises the Council's assets and liabilities as at 31st March 2019. Total net assets increased by £86.531 million from the position at 31st March 2018.

Long term assets increased in value by £145.866 million mainly due to upward revaluations and acquisition of assets. Short term investments stayed at a similar level and cash and cash equivalents increased in value by £1.794 million.

The net pension liability of the Council as at 31st March 2019 was calculated in accordance with the requirements of International Accounting Standard 19 (IAS 19) and amounts to £124.359 million which is an increase of £38.846 million from 31st March 2018. The main reasons for this are the result of a reduction in Corporate Bond yields during 2018/19 and provision made for potential liabilities in relation to the McCloud Ruling by the Court of Appeal that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' pension scheme (Sargeant) were age discriminatory. These cases could have knock on implications for the LGPS potentially increasing the liabilities and future funding requirements.

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 2019. The triennial actuarial valuation of the Lothian Pension Fund, which takes a longer term view, will consider the appropriate employer's contribution rates and this, together with employee contributions and revenues generated from the Pension Fund investments, will be used to meet the fund's commitments as they arise. The last actuarial valuation at 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 £0.692 million and staff release costs agreed at the 31st of March 2019 of £0.068 million.

The provision for non-collection of debt at 31st March 2019 was £37.9 million (2017/18 35.4 million). 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 2018/19 saw continued demographic pressures particularly around looked after children, people with learning disabilities, elderly care and the significant population growth in Midlothian. These pressures continue and present a considerable challenge to the Council in both financing them and transforming services to improve ways of managing some of the implications of these pressures. Welfare reform, the integration of health and social care and the implementation of the Children Act 2014 as well as the planned expansion in early learning and childcare are major policy developments that will not only impact on the council budgets but also change the way services are provided.

In approving the Council budget for 2019/20 Council agreed that a medium term financial strategy (MTFS) be presented to Council when it meets on 25th June 2019. The MTFS to 2022/23 sets out cost projections for pay inflation, price inflation and the impact of demographic changes are together with income projections and the impact of a range of measures designed to achieve significant progress towards addressing the projected budget gaps.

Pay inflation and Scottish Government Grant income projections are critical areas of modelling given their overall significance and uncertainty. For 2018/19 and again for 2019/20 the Scottish Government published a one year budget and grant settlement, and as such Councils are currently unaware of the level of funding that will be available to them beyond 2019/20. There are a number of factors which will influence the level of grant support Council might expect for 2020/21 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 economic factors can be made at this time, based on the information available from the Office of Budget Responsibility, the Scottish Fiscal Commission and Scotland's Fiscal Outlook, the Scottish Government's second medium term financial strategy and the impact of Scottish Government's tax and spending priorities will only become fully apparent when the Scottish Government's 2020/21 budget is published in December 2019.

In February 2019 the Council set a budget for 2019/20 which included savings of £9.356 million and increases in council tax funding of £3.668 million. In the context of reduced funding and growth in demand for services the Council has a considerable challenge to ensure its future expenditure plans are sustainable. The latest projections show the Council with a budget gap of £4.636 million in 2020/21 rising to £18.844 million by 2022/23.

Structure of Council Leadership and Council Staff

Following the local government elections on the 4 May 2017 and a subsequent by-election the political makeup of the Council is 6 Labour members, 7 SNP members and 5 Scottish Conservative and Unionist members. The Labour party forms a minority administration. The Leader of the Council is Derek Milligan and the Provost is Peter Smaill. The Council's Chief Executive is Dr Grace Vickers who took up the post from the 1 August 2018. The Council is structured into 3 Directorates:

- Health and Social Care (Joint Director, Allister Short);
- Resources (Acting Director, Kevin Anderson);
- Education, Communities and Economy (Director, Mary Smith).

Emerging Issues, Service Changes and Future Developments

As the fastest growing local authority in Scotland, Midlothian Council will invest over £208 million to deliver local services in 2019/20. However, with a rapidly growing population and greater demand for services, the Council has recognised the need for a strategic step change in the form of the development and agreement of a Medium Term Financial Strategy (MTFS) which sets out budget projections for the next three financial years together with the proposed resource allocation measures that will enable the Council to balance revenue budgets for each financial year.

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

The current outcome of Brexit remains unknown until the new deadline of 31st October 2019. The outcome of Brexit negotiations has implications for every local authority in the sense that any subsequent volatility in stock markets, exchange rates, interest rates and future availability of funding could potentially impact on amounts disclosed within the financial statements.
The significant areas impacted could include:

- The availability of grant funding and impact on other funding streams;
- The valuation of land and buildings;
- The fair value of long-term borrowing (but not the principal sum or interest payable);
- The liability related to defined benefit pension schemes, which is dependent on a large number of factors including investment performance, bond yields and inflation;
- Unusable reserves – any movement in the liability related to defined benefit pension schemes or movement in the value of land and buildings will be offset within unusable reserves.

The implications of Brexit for the Council in terms of potential changes to procurement, data protection, planning, environmental legislation, employment law and grant funding have been assessed and contingency plans are being kept under review as new information is made available. The Council's strategic risk register includes analysis of the potential impact on the Council from the triggering of Article 50, and the Corporate Management Team reviews the position at each of its meetings.

Following allegations last financial year of procurement irregularities regarding around £2.1 million (including VAT) of highway spending spread over six years a financial analysis of transactions has indicated a loss of £0.512 million to the Council (excluding investigatory and other costs) compared to it having carried out the work in house. The Council has commenced steps to seek to recover the loss.

The new Newbattle Community Campus 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.

Conclusion

2018/19 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 financial pressures the council made significant improvements across a range of areas especially the integration of health and social care. Very significant financial and service challenges lie ahead and the approval of a Medium Term Financial Strategy and delivery of the measures set out in that strategy will be a critical step for the Council as it seeks to ensure its continued 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 Annual Accounts.

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 Annual 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 these Annual 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 31st March 2019 and its income and expenditure for the year then ended.

Signed:

Gary Fairley

Head of Finance and Integrated Service Support

Date:

Annual Governance Statement

Introduction

The Annual Governance Statement explains how the Council has complied with the terms of the CIPFA/SOLACE Framework (2016) for the year ended 31 March 2019, sets out the Council's governance arrangements and systems of internal control, and reports on their effectiveness. The statement also covers relevant governance matters as they affect those entities included as part of the Council's Group Accounts.

Scope of Responsibility

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

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

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

Framework for Good Governance

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement;

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

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

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

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

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

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

The Governance Framework

The Council’s Local Code of Corporate Governance sets out the framework and key principles, which require to be complied with, to demonstrate effective governance. The key elements of the Council’s governance arrangements as set out in the Local Code include:

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

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

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

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

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

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

B. Ensuring openness and comprehensive stakeholder engagement

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

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

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

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

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

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

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

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

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

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

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

The corporate management structure consists of the Chief Executive, three Directors and nine Heads of Service. The roles of officers are defined in agreed job descriptions. Staff performance is reviewed on an annual basis in accordance with the 'Making Performance Matter' (MPM) process in place during the year.

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

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

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

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

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

The Head of Finance and Integrated Service Support (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

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

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

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

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

The independent and objective audit opinion of the Chief Internal Auditor (Chief Audit Executive) is stated within the Internal Audit Annual Assurance Report 2018/19. This is based on work carried out by an in-house team in conformance with the Public Sector Internal Audit Standards to fulfil statutory Internal Audit provision.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies including associated Action Plans for improvement.

The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

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

The Annual Accounts and Report for 2018/19 setting out the financial position in accordance with relevant accounting regulations is being prepared.

Review of Adequacy and Effectiveness

The Council carries out an annual review of the effectiveness of its overall governance framework. The output is this Annual Governance Statement which is presented to the Audit Committee whose role includes high level oversight of the Council's governance, risk management, and internal controls.

Update reports to the Audit Committee in December 2018 on implementation of Actions associated with Areas of Improvement in its Annual Governance Statement 2017/18 and Internal Audit Recommendations arising from the May 2018 Report into the findings of the Roads Investigation demonstrated good progress. Cultural issues within some areas of the Resources directorate continue to be addressed.

The review was further informed by assurances from: the Directors and Heads of Service, who have responsibility for the development and maintenance of the governance environment within their Directorates and Services and who in turn identify actions to improve governance at a strategic and operational level; the Chief Internal Auditor's annual assurance report; and comments and recommendations made by External Auditors and other external scrutiny bodies and inspection agencies.

Significantly this year the latter includes the findings and recommendations arising from the Best Value audit. The Accounts Commission published a Best Value Assurance Report for Midlothian Council on 4 July 2019.

Improvement Areas of Governance

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

The Council at its meeting on 20 August 2019 approved the "Best Value Assurance Report: Midlothian Council Action Plan", following its consideration by the Corporate Management Team on 17 July 2019, to address the recommendations (1-8 below) in order to demonstrate Best Value:

1) As a matter of urgency, officers and elected members need to work together to develop and agree the medium term financial strategy and progress the council's transformation plans.
2) The council needs to develop and sustain more constructive relationships between members and between members and officers. It needs to implement effective cross party governance arrangements to ensure that it delivers the medium term financial strategy and transformation plans.

3) The council needs to ensure that workforce planning reflects the medium term financial strategy.
4) The council should undertake a review of its capital programme, to ensure that the timeframes for delivery are achieved going forward and that monitoring and reporting mechanisms are enhanced to drive more accurate analysis and planning around capital work.
5) The council needs to continue to implement financial planning arrangements to address budget gaps, underpinned by robust financial budgeting and monitoring arrangements.
6) The council should refine its vision in light of the outcome of consultation work through the Services with Communities transformation workstream and to ensure that it focuses its activity most effectively.
7) Elected members need to exercise appropriate scrutiny at all times, take ownership for personal development plans and take up relevant training opportunities.
8) The council should continue to build on positive elements of community empowerment. It should look to increase community ownership of local neighbourhood plans and work with communities to improve how they monitor progress.

In addition, other improvement actions (9-13 below) have been agreed during the year that are not specifically covered by the above in order to enhance compliance with the Council's Local Code of Corporate Governance:

9) Adopt a Business Partner model for corporate support services, such as HR, Finance, and Procurement, in order to better support Service Managers and facilitate better decision making.
10) Strengthen resource capacity and skills in the Procurement function to better support Service Managers to comply with the Council's procurement strategy and procedures, and to undertake contract monitoring to ensure that controls are operating effectively and contract performance outcomes of external service providers are being achieved to deliver value for money.
11) Enhance the Performance Management Framework through the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value.
12) Review and update the Financial Regulations and policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations to reflect changes arising from organisation structures and systems and then keep these under regular review. Address long-standing issues with Finance computer-based feeder systems to enhance quality of information, and implement automation of routine processes.
13) Provide ongoing leadership training for officers relating to their roles and responsibilities to apply procedures and practices with a focus on new or refreshed policies.

These actions to enhance the governance arrangements in 2019/20 will be driven and monitored by the Corporate Management Team on a regular basis in order to inform the next annual review. Internal Audit work planned in 2019/20 is designed to test improvements and compliance.

Conclusion and Opinion on Assurance

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Midlothian Council's systems of internal control and governance. Cultural issues within some areas of the Resources directorate continue to be addressed. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in most respects to meet its principal objectives. Systems are in place to regularly review and improve governance arrangements and the system of internal control.

Grace Vickers	Derek Milligan
Chief Executive	Leader of the Council

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 2018/19;
- 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 2018/19 the salaries of the Directors were 88% 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 2018/19 this was £28,326. 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 2018/19 was £21,245.

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 £152,942. The maximum number of senior councillors allowable is eight (in addition to the leader of the Council and the Provost). 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 £21,245.

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 a career 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.

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 2018/19 are as follows:

Actual Pensionable Pay	Contribution rate (%)
On earnings up to and including £21,300	5.5%
On earnings above £21,300 and up to £26,100	7.25%
On earnings above £26,100 and up to £35,700	8.5%
On earnings above £35,700 and up to £47,600	9.5%
On earnings above £47,600	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 2017/18	Remuneration Band	Non- Teaching Employees 2018/19	Teaching Employees 2018/19	Total Employees 2018/19
63	£50,000 - £54,999	23	35	58
33	£55,000 - £59,999	6	23	29
8	£60,000 - £64,999	9	5	14
6	£65,000 - £69,999	7	3	10
1	£70,000 - £74,999	0	1	1
9	£75,000 - £79,999	3	1	4
0	£80,000 - £84,999	2	0	2
1	£85,000 - £89,999	0	1	1
0	£95,000 - £99,999	1	0	1
2	£100,000 - £104,999	2	0	2
0	£110,000 - £114,999	1	0	1
1	£120,000 - £124,999	0	0	0
124	**TOTAL**	**54**	**69**	**123**

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 2017/18 Restated	Total Cost £000 2017/18 Restated	Package Band	Number of Employees 2018/19	Total Cost £000 2018/19
27	314	£0 - £19,999	6	76
34	1,060	£20,000 - £39,999	13	383
19	1,131	£40,000 +	5	306
80	**2,505**	**TOTAL**	**24**	**765**

Remuneration paid to Senior Employees

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

For year to 31 March 2018		For year to 31 March 2019		
Total Remuneration	**Name and Post Title**	**Salary, Fees & Allowances**	**Non Cash Benefits**	**Total Remuneration**
£77,686	G Vickers (from 01.08.18) Chief Executive (2)	£100,246	£3,430	£103,676
£120,383	K Lawrie, (to 31.07 18) Chief Executive (1)	£34,367	£0	£34,367
£0	K Anderson, Director Resources (Acting)	£50,483	£0	£50,483
£100,284	J Blair, Director Resources	£97,738	£4,146	£101,884
£16,817	A Short Joint Director Health & Social Care (4)	£42,530	£0	£42,530
£100,330	M Smith, Director Education, Communities and Economy	£102,070	£0	£102,070
£77,842	G Fairley, Head of Finance & ISS	£76,849	£3,713	£80,562
£0	M Lloyd (from 01.08.18) Head of Education (3)	£47,467	£0	£47,467
£32,348	A White Head of Adult and Social Care	£78,803	£3,379	£82,182
£63,394	A Turpie, Legal Services Manager	£61,340	£0	£61,340
£589,084	**Total**	**£691,893**	**£14,668**	**£706,561**

1 K Lawrie resigned 31st July 2018. Full year equivalent salary is £115,156;
2 G Vickers appointed as Chief Executive 1st August 2018, previously Head of Education. Full year equivalent salaries are £110,345 and £74,256 respectively;
3 M Lloyd appointed as Head of Education 1st August 2018. Full year equivalent salary is £68,789.76;
4 Post joint funded 50:50 with NHS Lothian. Full time equivalent salary £85,059.

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-18	Name and Post Title	For year to 31-Mar-19
£15,000	G Vickers, Chief Executive (2)	£20,751
£24,402	K Lawrie, Chief Executive (1)	£7,879
£0	K Anderson, Director Resources (Acting)	£10,007
£19,420	J Blair, Director Resources	£20,232
£1,231	A Short, Joint Director Health & Social Care (4)	£6,309
£19,420	M Smith, Director Education, Communities and Economy	£20,232
£15,000	G Fairley, Head of Finance & Integrated Service Support	£15,908
£0	M Lloyd, Head of Education (3)	£9,415
£6,250	A White, Head of Adult and Social Care	£15,908
£11,129	A Turpie, Legal Services Manager	£12,167
£111,852	**Total**	**£138,808**

1 K Lawrie resigned 31st July 2018. Full year equivalent pension contribution is £22,841;
2 G Vickers appointed as Chief Executive 1st August 2018, previously Head of Education. Full year equivalent pension contributions are £22,841 and £15,371 respectively;
3 M Lloyd appointed as Head of Education 1st August 2018. Full year equivalent pension contribution is £13,645;
4 Post joint funded 50:50 with NHS Lothian. Full time equivalent pension contribution £12,617.

Accrued Pension Benefits

Name and Post Title	As at 31-Mar-19 Pension £'000	As at 31-Mar-19 Lump Sum £'000	Difference from 31-Mar-18 Pension £'000	Difference from 31-Mar-18 Lump Sum £'000
G Vickers, Chief Executive	7	0	3	0
K Lawrie, Chief Executive	40	60	1	0
J Blair, Director Resources	49	94	3	2
K Anderson Director Resources (Acting)	44	85	8	12
A Short, Joint Director Health & Social Care	18	36	5	6
M Smith, Director Education, Communities & Economy	33	44	3	1
G Fairley, Head of Finance & ISS	38	74	3	3
M Lloyd Head of Education	0	0	0	0
A White, Head of Adult & Social Care	17	8	3	1
A Turpie, Legal Services Manager	27	49	3	3
Total	**273**	**450**	**32**	**28**

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.

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

Remuneration of Senior Councillors

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

For year to 31 March 2018		For year to 31 March 2019		
Total Remuneration	Name	Salary	Expenses	Total Remuneration
£27,536	D Milligan, Leader of the Council,	£28,326	£626	£28,952
£21,032	M Russell, Depute Provost,	£21,245	£164	£21,409
£20,608	J Muirhead, Depute Leader,	£21,245	£30	£21,275
£0	P Smaill, Provost, (1)	£20,811	£350	£21,161
£20,894	R Imrie, Senior Councillor,	£21,245	£260	£21,505
£19,099	S Curran, Senior Councillor,	£21,245	£120	£21,365
£19,159	J Hackett, Senior Councillor,	£21,245	£147	£21,392
£20,947	K Parry, Senior Councillor / SNP Group Leader,	£16,926	£0	£16,926
£19,243	P Winchester, Scottish Conservative and Unionist Group Leader,	£21,245	£291	£21,536
£168,518	**Total**	**£193,533**	**£1,988**	**£195,521**

1. P Smaill appointed as Provost on 8th May 2018.

The Council paid £0.359 million (2017/18 £0.346 million) salaries to Councillors and expenses of £0.004 million (2017/18 £0.005 million). The annual return of Councillor's salaries and expenses is available on the Council Website.

Accrued Pension Benefits

	As at 31-Mar-19		Difference from 31-Mar-18	
Name and Post Title	**Pension**	**Lump Sum**	**Pension**	**Lump Sum**
	£0	**£0**	**£0**	**£0**
K Parry, Senior councillor	2	0	1	0
R Imrie, Senior Councillor	4	1	1	0
S Curran, Senior Councillor	1	0	1	0
Total	**7**	**1**	**3**	**0**

Pension Entitlement of Senior Councillors

	In-year employer's pension contributions	
For year to 31-Mar-18	**Name**	**For year to 31-Mar-19**
£4,075	R Imrie, Senior Councillor,	£4,398
£2,137	S Curran, Senior Councillor,	£4,398
£3,831	J Hackett, Senior Councillor,	£4,398
£3,831	P Winchester, Scottish Conservative and Unionist Group Leader,	£4,398
£4,231	K Parry, Senior Councillor/SNP Group Leader,	£3,504
£18,105		**£21,096**

Trade Union Facility Time

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

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

For the reporting year 2018/19, the equivalent of 5.6 FTE employees (across 14 individuals) of paid time facility was made available.

Of the total time made available, 11 individuals spent 1% to 50% of time during the year on trade union related activities, 3 between 51% and 99% and nil at 100%.

The Percentage of the total pay bill spent on paying employees who were TU representatives for facility time during the relevant period is as follows:-

Total cost of facility time	£191,695
Total pay bill	£136,292,000
Percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100	0.14%

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

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 2019

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. In accordance with IFRS 8 the CIES does not now include internal recharges and comparative figures have been amended accordingly.

Midlothian Council			Group			Midlothian Council			Group
Restated 2017/18 Gross Expenditure	Restated 2017/18 Gross Income	Restated 2017/18 Net Expenditure	Restated 2017/18 Net Expenditure			2018/19 Gross Expenditure	2018/19 Gross Income	2018/19 Net Expenditure	2018/19 Net Expenditure
£000	£000	£000	£000	**Service**	**Notes**	£000	£000	£000	£000
2,015	-82	1,933	1,933	Management	7	2,033	-105	1,928	1,928
17,252	-354	16,898	16,898	Children's Services	7	16,876	-634	16,242	16,242
7,105	-3,318	3,787	3,787	Communities and Economy	7	7,627	-4,569	3,058	3,058
98,288	-4,312	93,976	93,976	Education	7	102,844	-7,789	95,055	95,055
98,940	-58,637	40,303	40,303	Adult Social Care	7	103,548	-61,263	42,285	42,285
31,425	-24,881	6,544	6,544	Customer and Housing Services	7	29,777	-24,955	4,822	4,822
29,346	-5,151	24,195	24,195	Commercial Services	7	26,777	-4,896	21,881	21,881
12,765	-995	11,770	11,770	Finance and Integrated Service Support	7	21,287	-902	20,385	20,385
35,855	-15,040	20,815	20,815	Properties and Facilities Management	7	35,165	-16,561	18,604	18,604
29,439	-27,058	2,381	2,381	Housing Revenue Account	7	-51,607	-28,802	-80,409	-80,409
562	0	562	562	Lothian Valuation Joint Board	7	523	0	523	523

Midlothian Council			Group			Midlothian Council			Group
Restated 2017/18 Gross Expenditure	Restated 2017/18 Gross Income	Restated 2017/18 Net Expenditure	Restated 2017/18 Net Expenditure			2018/19 Gross Expenditure	2018/19 Gross Income	2018/19 Net Expenditure	2018/19 Net Expenditure
£000	**£000**	**£000**	**£000**	**Service**	**Notes**	**£000**	**£000**	**£000**	**£000**
-533	0	-533	-533	Central Costs	7	-548	0	-548	-548
2,092	0	2,092	2,173	Non-Distributable Costs	8	1,323	0	1,323	1,326
364,551	-139,828	224,723	224,804	**Net Cost of Services**		295,625	-150,476	145,149	145,152
		0	-342	Share of operating results of associates				0	-1,435
		-177	-177	Other Operating Expenditure	9			1,463	1,463
		15,567	15,567	Financing and Investment Income and Expenditure	10			16,010	16,010
		-210,733	-210,733	Taxation and non-specific grant income	11			-222,170	-222,170
		29,380	**29,119**	**(Surplus) or Deficit on Provision of Services**				**-59,548**	**-60,980**
		-1,899	-1,899	(Surplus) or Deficit on revaluation of non-current assets				-44,084	-44,084
		-44,600	-44,600	Re-measurement of the net defined benefit liability	33			17,287	17,287
		-3,290	-3,879	Other (Gains) / Losses				-184	-68
		-49,789	**-50,378**	**Other Comprehensive (Income) and Expenditure**				**-26,981**	**-26,865**
		-20,409	**-21,259**	**Total Comprehensive (Income) and Expenditure**				**-86,529**	**-87,845**

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 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 liability		0	0	0	0	0	-230	-230	0	-230
Revised Balance at 1 April 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	37	-6,440								
Amounts Uncommitted		-4,337								
Total General Fund Balance at 31 March 2018		**-10,777**								

	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 2018		**-10,777**	**-33,863**	**-19,462**	**-2,889**	**-66,991**	**-221,861**	**-288,852**	**17**	**-288,835**
Adjustments relating to revalued assets funded from developer contributions		0	0	-249	0	-249	249	0	0	0
Movement between Lothian Valuation Joint Board 2017/18 Unaudited Accounts and Audited Accounts		0	0	0	0	0	0	0	-81	-81
Revised Balance at 31 March 2018		**-10,777**	**-33,863**	**-19,711**	**-2,889**	**-67,240**	**-221,612**	**-288,852**	**-64**	**-288,916**
Total Comprehensive Expenditure and Income	CIES	14,685	-74,235	0	0	**-59,550**	**-26,978**	**-86,528**	**-1,317**	**-87,845**
Adjustments between accounting basis and funding basis under regulations	6	-12,612	69,014	-457	0	55,946	-55,949	-4	0	-4
Net increase/ (decrease) before transfers to other statutory reserves		**2,072**	**-5,221**	**-457**	**0**	**-3,605**	**-82,927**	**-86,531**	**-1,317**	**-87,848**
Transfers to/(from) other statutory reserves		68	0	0	-68	0	0	0	0	0
Increase/(Decrease) in year		**2,141**	**-5,221**	**-457**	**-68**	**-3,605**	**-82,927**	**-86,531**	**-1,317**	**-87,848**
Balance at 31 March 2019		**-8,637**	**-39,084**	**-20,168**	**-2,957**	**-70,846**	**-304,539**	**-375,383**	**-1,381**	**-376,764**

General Fund Analysed Over		
Amounts Earmarked	37	-4,533
Amounts Uncommitted		-4,104
Total General Fund Balance at 31 March 2019		**-8,637**

Group and Council Balance Sheet
As at 31 March 2019

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 are shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

Midlothian Council 31/03/2018 £000	Group 31/03/2018 £000		Notes	Midlothian Council 31/03/2019 £000	Group 31/03/2019 £000
634,013	634,013	Property, Plant and Equipment	12	779,364	779,364
514	514	Intangible Assets	13	924	924
76	76	Heritage Assets		86	86
8,399	8,399	Long Term Investments	16	8,424	8,424
0	-70	Investments share of net assets of associates		0	1,335
2,927	2,889	Long Term Debtors	17	2,997	2,957
645,929	**645,821**	**Long Term Assets**		**791,795**	**793,090**
65,221	65,221	Short Term Investments	15	65,420	65,420
4,257	4,257	Assets held for Sale	14	5,543	5,543
881	881	Inventories		868	868
18,455	18,510	Short Term Debtors	17	18,931	18,982
8,886	8,886	Cash and Cash Equivalents	18	10,680	10,680
97,700	**97,755**	**Current Assets**		**101,442**	**101,493**
25,725	25,725	Short Term Borrowing	15	20,507	20,507
39,214	39,178	Short Term Creditors	19	38,751	38,716
1,793	1,793	Provisions	20	760	760
24,410	24,410	Grants Receipts in Advance	28	31,041	31,041
91,142	**91,106**	**Current Liabilities**		**91,059**	**91,024**
218,176	218,176	Long Term Borrowing	15	219,605	219,605
145,459	145,459	Other Long Term Liabilities	21	207,190	207,190
363,635	**363,635**	**Long Term Liabilities**		**426,795**	**426,795**
288,852	**288,835**	**Net Assets**		**375,383**	**376,764**
66,991	67,567	Usable Reserves	6&22	70,844	72,911
221,861	221,268	Unusable Reserves	23	304,539	303,853
288,852	**288,835**	**Total Reserves**		**375,383**	**376,764**

Gary Fairley, Head of Finance and Integrated Service Support

Unaudited Accounts were authorised for issue on 21st June 2019 and the audited accounts were authorised for issue on 24th September 2019.

Cash Flow Statement

For the year ended 31 March 2019

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.

2017/18			2018/19
£000	**Revenue Activities**	**Notes**	**£000**
-31,034	**Net surplus or (deficit) on the provision of services**		**59,548**
66,947	Adjustment to surplus or deficit on the provision of services for non cash movements	24	-22,157
-17,870	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	39,943
18,043	**Net Cash Flows From Operating Activities**		**77,334**
-2,444	Net cash flows from investing activities	25	-69,735
-17,607	Net cash flows from financing activities	26	-5,805
-2,008	**Net Increase or Decrease in Cash and Cash Equivalents**		**1,794**
10,894	Cash and cash equivalents at the beginning of the reporting period	18	8,886
8,886	**Cash and cash equivalents at the end of the reporting period**		**10,680**

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 Annual Accounts summarise the Council's transactions for the 2018/19 financial year and its position as at 31 March 2019. The Council is required to prepare Annual Accounts in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 also requires the Annual 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 2018/19 (The Code), 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.

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.

<u>1.2.2 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors</u>

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.

<u>1.2.3 Charges to Revenue for Non-Current Assets</u>

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

The change in the net pension's 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.

Financial Assets

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

- amortised cost;
- fair value through profit or loss (FVPL); and
- Fair value through other comprehensive income (FVOCI).

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

Financial Assets Measured at Amortised Cost

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

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.

Expected Credit Loss Model

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

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

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

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

The fair value measurements of the financial assets are based on the following techniques:

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

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

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

Under IFRS9 the Council designates that investments held for strategic purposes be classified as being measured at Fair Value through Other Comprehensive Income. Any gains or losses on these investments will be held in the Financial Instruments Revaluation Reserve.

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

Changes in fair value are balanced by an entry in the Financial Instruments Revaluation Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Financial Assets measured at fair value through Profit or Loss. 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 Financial Instruments Revaluation Reserve.

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

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 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 is existing use value– 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 as follows:

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

Where an impairment loss is 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. 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.

1.2.9 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.

Intangible assets are initially measured at cost. Amounts are only revalued where the fair value of assets held by the Council can be determined by reference to an active market. In practice, no intangible asset held by the Council meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the CIES.

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 2019/20 Code.

- Annual Improvements to IFRS Standards 2014-2016 Cycle;
- Amendments to IAS 40 *Investment Property*: Transfers of Investment Property;
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration;*
- IFRIC 23 *Uncertainty Over Income Tax Treatments;*
- IFRS 16 *Leases*;
- Amendments to IFRS 9 *Financial Instruments*: Prepayment Features with Negative Compensation.

These changes will be effective from the 1st April 2019 and none are expected to have a material impact on the Councils 2018/19 or 2019/20 financial statements.

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 Annual Accounts are:

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

Local Government Pension Scheme

- Guaranteed minimum pension (GMP)
    - Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However, overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the second state pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMP's, which could lead to inequalities between men and women's benefits.
    - As an interim solution to avoid this problem, GMP rules were changes so that the responsibility for ensuring GMP's kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age

between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

  - The fund's actuary has carried out calculations in order to estimate the impact that the GMP indexation changes will have on the liabilities of Midlothian Council for financial reporting purposes. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards.
  - The estimate as it applies to Midlothian Council is that total liabilities could be o.2% higher as at 31 March 2019, an increase of approximately £1.5m. This increased liability has been reflected in the revised accounting report as a past service cost.
  - These numbers are approximate estimates based on employer data as at 31 March 2017 and will be revised at the upcoming valuation.

- McCloud judgement
  - Legislation requires the LGPS to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. The cost management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' pension scheme (Sargeant) were age discriminatory. These cases could have knock on implications for the LGPS potentially increasing the liabilities). The Council's actuary has included an estimate within the pension liability as a past service cost (refer to Note 24 – Retirement Benefits) which will be subject to future revision as the outcome of the judgement becomes clearer in line with the upcoming triennial valuation of the fund.

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 2019 for which there is significant risk of material adjustment in the forthcoming year are as follows:

4.1 Property, Plant and Equipment

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 £6.097 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 2019		
0.5% decrease in Real Discount Rate	10%	70,314
0.5% increase in the Salary Increase Rate	2%	13,208
0.5% increase in the Pension Increase Rate (CPI)	8%	55,524

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 2019

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.

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	Service	2018/19 Net expenditure chargeable to the General Fund and HRA balances £000	2018/19 Adjustments between the funding and accounting basis (1) £000	2018/19 Net expenditure in the Comprehensive Income and Expenditure Statement (3) £000
1,835	98	1,933	Management	1,837	91	1,928
16,069	829	16,898	Children's Services	15,686	556	16,242
3,449	338	3,787	Communities and Economy	2,666	392	3,058
75,455	18,521	93,976	Education	77,647	17,408	95,055
38,281	2,022	40,303	Adult Social Care	40,355	1,929	42,285
6,492	52	6,544	Customer and Housing Services	4,548	273	4,822
17,932	6,263	24,195	Commercial Services	16,646	5,235	21,881
11,775	-5	11,770	Finance and Integrated Service Support	11,036	9,349	20,385
14,620	6,195	20,815	Properties and Facilities Management	14,668	3,935	18,604
-14,461	16,842	2,381	Housing Revenue Account	-15,729	-64,681	-80,409
562	0	562	Lothian Valuation Joint Board	523	0	523

Net expenditure chargeable to the General Fund and HRA balances	Adjustments between the funding and accounting basis (1)	Net expenditure in the Comprehensive Income and Expenditure Statement (3)	Service	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between the funding and accounting basis (1)	Net expenditure in the Comprehensive Income and Expenditure Statement (3)
£000	**£000**	**£000**		**£000**	**£000**	**£000**
-533	0	-533	Central Costs	-652	104	-548
2,075	17	2,092	Non-Distributable Costs	1,358	-35	1,323
173,551	**51,172**	**224,723**	**Net Cost of Services**	**170,589**	**-25,444**	**145,149**
9,102	-9,279	-177	Other Income and Expenditure	10,497	-9,034	**1463**
12,386	3,181	15,567	Financing and Investment Income and Expenditure	13,448	2,562	16,010
-192,275	-18,458	-210,733	Taxation and non-specific grant income	-197,613	-24,557	-222,170
2,764	**26,616**	**29,380**	**(Surplus) or Deficit on Provision of Services**	**-3,079**	**-56,473**	**-59,548**
-47,406			**Opening General Fund and HRA Balance**	**-44,640**		
-44,642			**Closing General Fund and HRA Balance (2)**	**-47,719**		

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				2017/18
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)**	**Restated Other Differences (3)**	**Restated Total Adjustments**
Service	**£000**	**£000**	**£000**	**£000**
Management	0	84	14	98
Children's Services	400	452	-23	829
Communities and Economy	6	321	11	338
Education	12,455	4,720	1,345	18,520
Adult Social Care	637	1,143	242	2,022
Customer and Housing Services	-23	0	75	52
Commercial Services	6,514	848	-1,098	6,264
Finance and Integrated Service Support	688	-268	-425	-5
Properties and Facilities Management	5,191	1,204	-200	6,195
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**

Adjustments between Funding and Accounting Basis				2018/19
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	**Adjustments for Capital Purposes (1**	**Net change for the pension adjustments (2)**	**Restated Other Differences (3)**	**Restated Total Adjustments**
Service	**£000**	**£000**	**£000**	**£000**
Management	0	92	-16	76
Children's Services	92	496	-50	538
Communities and Economy	46	352	-38	360
Education	10,974	5,184	50	16,208
Adult Social Care	645	1,255	-139	1,761
Customer and Housing Services	309	0	-68	241
Commercial Services	5,387	932	-111	6,208
Finance and Integrated Service Support	935	8,938	-129	9,744
Properties and Facilities Management	2,870	1,322	-159	4,033
Housing Revenue Account	-65,105	425	0	-64,680
Lothian Valuation Joint Board	0	0	0	0
Central Services	104	0	0	104
Non-Distributable Costs	0	0	-35	-35
Net Cost of Services	**-43,743**	**18,996**	**-695**	**-25,442**
Other income and expenditure from the Expenditure and Funding Analysis	-33,582	2,562	-9	-31,029
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**-77,325**	**21,558**	**-704**	**-56,471**

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; and
- **For Services** internal recharges, as covered by IFRS 8 and associated guidance, that are shown in budget monitoring statements are removed from segments in the CIES.
- **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

2017/18	General Fund £000	Housing Revenue Account £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**

2018/19	General Fund £000	Housing Revenue Account £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	-22,628	-7,511	0	**-30,139**	**30,139**
Amortisation of intangible assets	-232	0	0	**-232**	**232**
Revaluation Gains on PPE and assets held for sale	1,603	72,616	0	**74,219**	**-74,219**
Net gain or loss on sale of non-current assets	-1,440	-23	0	**-1,463**	**-1,463**
Statutory Provision for the financing of capital investment	5,965	4,456	0	**10,421**	**-10,421**
Net revenue expenditure financed from capital under statute (REFFCUS)	-164	0	0	**-164**	**164**
Capital Financed From Current Revenue (CFCR)	60	0	0	**60**	**-64**
Adjustments primarily involving the Capital Grant Unapplied Account					
Application of grants to capital financing transferred to the CAA	24,556	0	0	**24,556**	**-24,556**
Adjustments primarily involving the Capital Fund					
Capital Receipts Transferred to the Capital Fund	0	0	-457	**-457**	**457**
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	9	0	0	**9**	**-9**
Adjustments primarily involving the pensions reserve					
Reversal of items relating to retirement benefits debited or credited to the CIES	-35,964	-524	0	**-36,488**	**36,488**
Employers Pension contributions and direct payments to pensioners payable in the year	14,929	0	0	**14,929**	**-14,929**
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	694	0	0	**694**	**-694**
Total Adjustments	**-12,612**	**69,014**	**-457**	**55,945**	**-55,949**

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

2017/18 Service Area	Employee Expenses	Restated Other Service Expenses	Depreciation, Amortisation and Impairment	Interest Payments	Loss/Gain on Disposal of non-current assets	Share of Operating Results of Associates	**Restated Total Expenditure**	Restated Fees, Charges and Other Service Income	Interest and Investment Income	Income from Council Tax	Government Grants and Contributions	**Restated Total Income**	**Restated Net Expenditure**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Management	1,716	299	0	0	0	0	**2,015**	-82	0	0	0	**-82**	1,933
Children's Services	6,086	10,766	400	0	0	0	**17,252**	-208	0	0	-146	**-354**	16,898
Communities and Economy	3,898	3,201	6	0	0	0	**7,105**	-1,892	0	0	-1,426	**-3,318**	3,787
Education	68,687	17,145	12,455	0	0	0	**98,287**	-1,180	0	0	-3,131	**-4,311**	93,976
Adult Social Care	18,008	80,295	637	0	0	0	**98,940**	-57,204	0	0	-1,433	**-58,637**	40,303
Customer and Housing Services	5,248	26,199	-23	0	0	0	**31,424**	-1,715	0	0	-23,165	**-24,880**	6,544
Commercial Services	11,934	10,899	6,514	0	0	0	**29,347**	-4,983	0	0	-169	**-5,152**	24,195
Finance and Integrated Service Support	10,057	2,020	688	0	0	0	**12,765**	-995	0	0	0	**-995**	11,770
Properties and Facilities Management	19,889	10,777	5,190	0	0	0	**35,856**	-14,688	0	0	-353	**-15,041**	20,815
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**	**174,614**	**42,322**	**13,136**	**-177**	**-342**	**380,430**	**-110,005**	**-750**	**-40,698**	**-199,858**	**-351,311**	**29,119**

2018/19 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	1,701	332	0	0	0	0	**2,033**	-2	0	0	-103	**-105**	1,928
Children's Services	6,201	10,584	92	0	0	0	**16,876**	-187	0	0	-447	**-634**	16,242
Communities and Economy	3,741	3,840	46	0	0	0	**7,627**	-1,976	0	0	-2,593	**-4,569**	3,058
Education	73,735	18,135	10,974	0	0	0	**102,844**	-749	0	0	-7,040	**-7,789**	95,055
Adult Social Care	19,112	83,790	645	0	0	0	**103,548**	-12,129	0	0	-49,134	**-61,263**	42,285
Customer and Housing Services	4,364	25,104	309	0	0	0	**29,777**	-2,862	0	0	-22,093	**-24,955**	4,822
Commercial Services	11,763	9,627	5,387	0	0	0	**26,777**	-4,716	0	0	-180	**-4,896**	21,881
Finance and Integrated Service Support	8,772	11,580	935	0	0	0	**21,287**	-902	0	0	0	**-902**	20,385
Properties and Facilities Management	20,870	11,425	2,869	0	0	0	**35,164**	-16,165	0	0	-395	**-16,560**	18,604
HRA	0	14,582	-65,105	0	0	0	**-50,524**	-29,880	0	0	-5	**-29,885**	-80,409
Lothian Valuation Joint Board	0	523	0	0	0	0	**523**	0	0	0	0	**0**	523
Central Costs	0	-548	0	0	0	0	**-548**	0	0	0	0	**0**	-548
Non-distributable costs	1,322	0	0	0	0	5	**1,327**	0	0	0	0	**0**	1,327
Costs not included in a Service	2,562	0	0	14,470	1,463	-1,435	**17,060**	0	-1,023	-42,926	-179,244	**-223,193**	-206,133
Total	**154,144**	**188,974**	**-43,849**	**14,470**	**1,463**	**-1,430**	313,772	**-69,569**	**-1,023**	**-42,926**	**-261,234**	**-374,751**	**-60,980**

8. Non-distributable costs

2017/18 £000		2018/19 £000
2,092	Pension Costs	1,323
2,092	**Total Non-distributable Costs**	**1,323**

9. Other operating income and expenditure

2017/18 £000		2018/19 £000
-177	(Surplus)/Deficit on sale or disposal of non-current assets	1,463
-177	**Total Other Operating Income and Expenditure**	**1,463**

10. Financing and investing income and expenditure

2017/18 £000		2018/19 £000
13,678	Interest payable and similar charges	15,138
3,181	Pension interest cost on defined benefit obligation and interest income on plan assets	2,562
-1,292	Interest received and similar income	-1,690
15,567	**Total**	**16,010**

11. Taxation and non-specific grant income

2017/18 £000	**Credited to Taxation and Non-Specific Grant Income**	2018/19 £000
40,698	Council Tax Income	42,925
29,204	Non Domestic Rates Income	27,955
122,373	Non-Specific Government Grants	126,733
18,458	Capital grants	24,557
210,733	**Total Taxation and Non-Specific Grant Income**	**222,170**
	Credited to Services	
23,162	Housing Benefit Subsidy	22,109
0	Unitary Charge Funding	2,296
2,273	Pupil Equity Funding	2,273
1,108	Community Justice Grant	1,356
370	LEADER Programme	965
72	Track 2 Train	528
2,837	Other Entities & Individuals	2,298
29,822	**Total**	**31,825**

2017/18 £000	**Grants Receipts in Advance**	2018/19 £000
	Revenue Grants	
1,018	Scottish Government Blueprint Grant Gorebridge Connected	630
141	Scottish Government Blueprint Grant Track to Train	0
338	Scottish Government Regeneration Capital Grant Track to Train	0
0	Scottish Government Regeneration Capital Grant Rosewell Development Trust	5

0	Scottish Government Early Years Grant	3,777
	Capital Grants	
22,879	Section 75 contributions from private developers	26,629
34	Scottish Government Inspiring Learning Spaces Grant	0
0	Hopefield Insurance Receipt	0
24,410	**Total**	**31,041**

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 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**

	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 2018	**307,504**	**322,080**	**11,504**	**31,304**	**65,555**	**7,979**	**9,622**	**6,468**	**762,016**
Additions	9,103	4,245	0	2,777	5,301	130	39,889	0	61,445
Disposals	-304	-11,269	-358	-1,127	0	-105	0	-763	-13,926
Reclassification	1,023	36,456	-2,687	-66	0	0	-33,055	-2,380	-709
Revaluation to I&E	34,350	-127	1,396	0	0	0	0	-143	35,476
Revaluation to Revaluation Reserve	28,260	2,060	2,152	0	0	68	0	-978	31,562
Gross Book value at 31 March 2019	**379,936**	**353,445**	**12,007**	**32,888**	**70,856**	**8,072**	**16,456**	**2,204**	**875,864**

	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 2018	**-40,129**	**-28,852**	**0**	**-20,911**	**-37,908**	**-111**	**0**	**-92**	**-128,003**
Depreciation Charge for the Year	-7,511	-16,255	0	-2,905	-3,285	-135	0	-46	-30,137
Disposals	258	10,862	0	1,018	0	16	0	0	12,154
Reclassification	-181	128	0	53	0	0	0	0	0
Revaluation to I&E Depreciation	38,266	475	0	0	0	0	0	0	38,741
Revaluation to Revaluation Reserve Depreciation	7,105	3,598	0	0	0	42	0	0	10,745
Depreciation as at 31 March 2019	**-2,192**	**-30,044**	**0**	**-22,745**	**-41,193**	**-188**	**0**	**-138**	**-96,500**
Net book value as at 31 March 2018	**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 2019	**377,744**	**323,401**	**12,007**	**10,143**	**29,663**	**7,884**	**16,456**	**2,066**	**779,364**

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 which is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council, these include Software Licences and Carbon Reduction Commitment (CRC) Allowances.

2017/18		2018/19
£000		£000
1,941	**Gross carrying amount at start of year**	**1,893**
-1,175	Accumulated amortisation	-1,380
766	**Net carrying amount at the start of year**	**513**
216	Additions – purchased	908
-262	Surrender of CRC Allowance	-265
-206	Amortisation	-232
514	**Net Book Value at Year End**	**924**

14. Movement in assets held for sale

2017/18		2018/19
£000		£000
1,950	**Balance Outstanding as at 1 April**	**4,257**
2303	Transfers from Non Current Assets during the year	0
-1	Revaluations and Restatements	1,410
5	Additions	47
0	Asset Disposal - Other	-171
4,257	**Balance Outstanding as at 31 March**	**5,543**

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. Financial instruments

Financial Assets

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

- amortised cost;
- fair value through profit or loss (FVPL); and
- fair value through other comprehensive income (FVOCI).

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

The amounts the Council hold under each of these asset classifications is shown in the table below:-

Asset Class	Amortised Cost	Fair Value Through Profit & Loss	Fair Value Through Other Comprehensive Income
	£000's	£000's	£000's
Carrying Amount	87,011	0	8,424

Reclassification and re-measurement of financial assets at 1 April 2018

The effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting has not resulted in any re-measurement to the carrying amounts of assets.

The adoption of IFRS 9 Financial Instruments has had no impact on the General Fund or Financial Instrument Revaluation Reserve.

The effect of the adoption of IFRS 9 has had no material impact on the measurement of impairment loss allowances and no opening balances have therefore been restated.

Previous Classification	Carrying Amount Brought Forward At 1 April 2018	New Classification at 1 April 2018	
		Amortised Cost	Fair Value Through Other Comprehensive Income
	£000's	£000's	£000's
Loans & Receivables	76,809	76,476	333
Available for Sale	8,067	0	8,067
Reclassified Amounts at 1 April 2018	**84,876**	**76,476**	**8,400**
Re-measurements at 1 April 2018	0	0	0
Re-measured carrying amounts at 1 April 2018	**84,876**	**76,476**	**8,400**

Effect of Asset Reclassification and Re-measurement on the Balance Sheet

The table below shows how the new balances at 1 April 2018 for financial assets are incorporated into the Balance Sheet.

Previous Classification	Amortised Cost	Fair Value Through Other Comprehensive Income	Non-financial Instrument Balances	Total Balance Sheet Carrying Value
	£000's	£000's	£000's	£000's
Long Term Investments	0	8,400	0	8,400
Current Investments	74,106	0	0	74,106
Current Debtors	2,370	0	16,085	18,455
Remeasured Carrying Amounts at 1 April 2018	**76,476**	**8,400**	**16,085**	**100,962**

Financial Instrument Balances

The carrying amounts of financial liabilities and assets presented in the Balance Sheet relate to the following measurement categories:-

31 March 2018			31 March 2019	
Long Term Restated	**Current Restated**		**Long Term**	**Current**
£000	**£000**		**£000**	**£000**
		Financial Instrument Liabilities		
218,176	25,725	External Borrowings at amortised cost	219,605	20,507
51,958	1,449	PPP Liability at amortised cost (see Note 33)	82,832	2,303
0	23,340	Creditors at amortised cost	0	14,221
270,134	**50,514**	**Total Financial Instrument Liabilities**	**302,437**	**37,031**
0	15,874	Total non-financial instrument liabilities (statutory creditors)	0	24,530
		Financial Instrument Assets		
0	8,886	Cash and Cash Equivalents at amortised cost (see Note 18)	0	10,680
0	65,221	Loans and Receivables at amortised cost	0	65,420
0	2,370	Debtors at amortised cost	0	10,911
8,400	0	Assets held at fair value through other comprehensive income	8,424	0
8,400	**76,477**	**Total Financial Assets**	**8,424**	**87,011**
0	16,085	Total non-financial instrument assets (statutory debtors)	0	8,020

Financial Instrument Balances in 2018/19 accounts have the correct split between the current and long term element of the PPP Liability for the 2017/18 comparators. The 2017/18 Audited Accounts figures had an incorrect split for the 2017/18 figures.

The Council's borrowing is presented in the Balance Sheet as the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. Borrowing is classed as either a long term liability, repayable after 12 months or longer, or a current liability if it is repayable within 12 months.

Long Term borrowing as shown in the Balance Sheet of £219.605 million fully comprises principal to be repaid later than 12 months (PWLB Maturity Loans of £178.824 million, PWLB Annuity Loans of £0.637 million, and LOBO Loans of £20.589 million, Market Loans of £18.750 million and Salix Loans of £0.805 million). Lender Option Borrower Options (LOBO's) of £20.589 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 £20.507 million comprises accrued interest of £2.236 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 £18.263 million (£9 million Temporary Loans; £8.400 million PWLB Maturities; £0.714 million Market Loans, £0.111 million Salix Loan, £0.037 million PWLB Annuities).

Gains and Losses on Financial Instruments

There were no gains or losses on 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 2018/19 was £7.870 million [equating to £8.537 million interest paid on external borrowings less £0.667 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 2018/19 was £0.081 million.

2017/18			2018/19	
Surplus or Deficit on the Provision of Services	**Other Comprehensive Income and Expenditure**		**Surplus or Deficit on the Provision of Services**	**Other Comprehensive Income and Expenditure**
£000's	**£000's**		**£000's**	**£000's**
		Net gains/losses on:-		
3,131	0	Investments in equity instruments designated at fair value through other comprehensive income	26	0
3,131	**0**	**Total net gains/losses**	**26**	**0**
		Interest Revenue		
0	541	Financial assets measured at amortised cost	0	667
0	371	Other financial assets measured at fair value through other comprehensive income	0	438
0	**912**	**Total Interest Revenue**	**0**	**1,105**
		Interest Expense		
0	8,615	Financial assets measured at amortised cost	0	8,522
0	**8,615**	**Total Interest Revenue**	**0**	**8,522**
		Fee Expense		
0	127	Financial assets or financial liabilities that are not at fair value through other profit and loss	0	81
0	**127**	**Total Fee Expense**	**0**	**81**

Fair Value of Assets and Liabilities Carried at Amortised Cost

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.

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 Asset Services, the Council's treasury management consultants, from the market on 31 March 2019.

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:-
    - the valuation of fixed the Premature Repayment Rate ["Fair Value (Premature Redemption)" column of table on page 72]; as per rate sheet number 127/19 issued by PWLB on 31 March 2019;
- 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 on page 72]; and

    - the Premature Repayment Rate [“Fair Value (Premature Redemption)” column of table on page 72]; as per rate sheet number 127/19 issued by PWLB on 31 March 2019;

- 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 on page 72]; and
    - the Premature Repayment Rate [“Fair Value (Premature Redemption)” column of table on page 72]; as per rate sheet number 127/19 issued by PWLB on 31 March 2019;

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

31 March 2018				31 March 2019					
Carrying Amount	(a) Fair Value	(b) Fair Value	Liability	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
199,854	246,817	291,927	**PWLB**	187,899	0	1,793	189,691	240,864	285,683
20,879	31,029	38,277	**LOBO**	20,000	597	274	20,872	31,598	38,849
9,886	10,266	12,350	**Market Loans**	19,464	0	165	19,629	21,927	21,927
13,005	13,005	13,006	**Short Term Borrowing**	9,000	0	4	9,004	9,004	9,004
277	248	263	**Salix**	916	0	0	916	846	886
243,901	**301,365**	**355,823**	**Total**	**237,279**	**597**	**2,236**	**240,112**	**304,238**	**356,349**

Fair values of financial assets are calculated as:

31 March 2018			31 March 2019			
Carrying Amount	Fair Value	Investments	Principal Advanced	Add Accrued Interest	Carrying Amount	Fair Value
£000	£000		£000	£000	£000	£000
8,886	8,886	**Cash and Cash Equivalents**	10,675	5	10,680	10,680
65,221	65,088	**Short Term Investments**	64,985	435	65,420	65,420
74,107	**73,974**	**Total**	**75,660**	**440**	**76,100**	**76,100**

Fair value hierarchy for financial assets and financial liabilities that are not measured at fair value

The fair value hierarchy for financial assets and financial liabilities that are not measured at fair value are shown in the table below:-

Level	Level 2 £000's
Financial Liabilities held at Amortised Cost	
PWLB	240,864
LOBO	31,598
Market Loans	21,927
Short Term Borrowing	9,004
Salix	846
PFI & Finance Lease Liability	85,135
Total	**389,374**

Fair value hierarchy for financial assets and financial liabilities that are measured at fair value

The fair value hierarchy for financial assets and financial liabilities that are measured at fair value are shown in the table below:-

Level	Level 2 £000's	Level 3 £000's
Financial Assets Held at Fair Value		
Financial Assets – Equity Shareholding in Lothian Buses	8,093	0
Financial Assets – Subordinated Debt Subscription in Newbattle DBFMCo	0	331
Total Financial Assets	**8,093**	**331**

Nature and extent of risks arising from Financial Instruments
The Council's activities expose it to a variety of financial risks:

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

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.

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

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

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

<u>Expected Credit Loss Model</u>
The authority recognises expected credit losses on all of its financial assets held at amortised cost and FVOCI, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority. The provision for Bad Debts as outlined in Note 17 – Debtors – reflects this.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.
The Expected Credit Loss for the Council's financial assets held at amortised cost has been calculated above to be £0.013 million. The Council deems this to be immaterial and therefore has not included any impact of this within the CIES.

The Expected Credit Loss for the Council's financial assets held at FVOCI is as follows:-

- Lothian Buses Shareholding: Expected Credit Loss of zero. This has been calculated on the basis that there has been no default on the dividends payable to the Council over the period the Council has held this investment;
- Subordinated Debt Investment in Newbattle DBFM Co SPV: Expected Credit Loss of zero. Whilst there are no directly observable indicators which would allow an expected credit loss for this investment to be accurately calculated/costed, there are no indications of adverse performance within the DBFM Co or any indications that future scheduled lifecycle maintenance will not be able to take place or senior and/or subordinated debt will not be able to be repaid. The Council will continue to review the performance of the SPV on an annual basis.

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

Age Analysis

31 March 2018 £000		31 March 2019 £000
8,886	Less than 3 months	10,680
35,208	3 to 6 months	20,406
15,010	6 months to 1 year	30,008
15,003	More than 1 year	15,006
74,107	**Total**	**76,100**

Liquidity Risk

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

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

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

Age Analysis

31 March 2018 £000		31 March 2019 £000
23,452	Less than 1 year	20,507
8,855	1 to 2 years	9,275
11,030	2 to 5 years	3,857
3,270	5 to 10 years	5,569
59,162	10 to 20 years	62,820
2,679	20 to 30 years	5,437
85,534	30 to 40 years	85,597
42,049	40 to 50 years	42,048
5,000	Greater than 50 years	5,000
241,031	**Total**	**240,110**

Refinancing and Maturity Risk

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

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

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

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

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

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;
- 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 2019, 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	68	
Increase in interest receivable on variable rate instruments	(759)	
Increase in government grant receivable for financing costs	0	
Impact on CIES	**(691)**	
	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)	**0**	**0**
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)	**(46,414)**	**(59,368)**

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 the 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.

16. Long Term Investments

2017/18 £000		2018/19 £000
8,066	Lothian Buses plc	8,093
333	Newbattle DBFMco Ltd	331
8,399	**Total Long Term Investments**	**8,424**

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-18 £000		Year to 31-Dec-19 £000
152,884	Turnover	160,629
10,008	Profit before taxation	2,302
-2,639	Taxation	-1,590
7,369	Profit after taxation	712
6,790	Ordinary dividend	7,691
57,258	Transfer to / (from) reserves	475
147,483	**Net assets at end of year**	**147,958**

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**

17. 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

2017/18 £000	2017/18 £000		2018/19 £000	2018/19 £000
30,144		Council Tax and Community Charge	30,994	
-28,544		Less: bad debt provision	-29,708	
	1,600			1,286
	3,804	Central Government Bodies		4,795
	1149	Other Public Sector Bodies		116
	3,564	Rents		5,736
15,225		Grants, External Debtor accounts and other Income due	15,176	
-6,887		Less: bad debt provision	-8,178	
	8,338			6,998
	18,455	**Net Debtors**		**18,931**

Long Term Debtors

2017/18 £000		2018/19 £000
2,889	Prepayment to PPP Contractor	2,957
38	Pacific Shelf	40
2,927	**Total Long Term Debtors**	**2,997**

18. 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:

2017/18		2018/19
£000		**£000**
436	Cash and Bank Balances	502
8,031	Short Term Deposits Considered to be Cash Equivalents	9,772
419	Bank Current Accounts	406
8,886	**Total Cash and Cash Equivalents**	**10,680**

19. Creditors

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

2017/18		2018/19
£000		**£000**
15,105	Trade Creditors	15,246
6,640	Central Government Bodies	3,259
6,327	Accumulated Absences	5,633
3,719	Other Public Sector Bodies	2,466
3,116	NDR/Council Tax	1,766
0	Grants	1,326
1,549	Payroll Costs Due	5,644
0	Receipts in Advance	582
0	Bodies External to Gen Govt	18
2,758	Other Entities and Individuals	2,811
39,214	**Total Creditors**	**38,751**

20. 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 £0.692 million at 31 March 2019 (2017/18 £0.940 million) and is shown in other provisions.

The Council had in place for a period during 2018/19 a time limited Voluntary Severance Scheme. A provision for £0.068 million has been made for staff release costs where employees have an agreed departure date as at 31 March 2018.

Provision for Uninsured Losses

2017/18 £000		2018/19 £000
1,431	**Balance at 1st April**	**940**
499	New insurance provisions made in the period	495
258	Increases to existing insurance provisions made in the period	139
-217	Decrease to existing insurance provisions made in the period	0
-1,031	Full settlement of existing insurance provisions made in the period	-882
940	**Balance at 31st March**	**692**

Provision for the cost of staff released under voluntary severance

2017/18 £000		2018/19 £000
0	**Balance at 1st April**	**853**
0	Amounts used during the year	**-853**
853	Provision for costs of staff released under voluntary severance	68
853	**Balance at 31st March**	**68**

Total provisions

2017/18 £000		2018/19 £000
940	Provision for potential uninsured losses	692
853	Provision for costs of staff released under voluntary severance	68
1,793	**Balance at 31st March**	**760**

21. Long Term Liabilities

31/03/2018 £000		31/03/2019 £000
85,513	Net Pension Liability	124,359
51,956	PPP Liabilities	82,831
7,990	Borders Railway Liability	0
145,459	**Total Long Term Liabilities**	**207,190**

22. 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, and 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.

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

31/03/2018 £000		31/03/2019 £000
-10,777	General Fund Reserve	-8,637
-33,863	HRA Balance	-39,084
-19,462	Capital Fund	-20,168
-2,889	Repairs and Renewals Fund	-2,957
-66,991	**Total Usable Reserves**	**-70,846**

23. Unusable reserves

31/03/2018 £000		Notes	31/03/2019 £000
-197,754	Capital Adjustment Account	24.1	-285,364
-110,563	Revaluation Reserve	24.2	-143,589
85,513	Pension Reserve	24.3	124,359
6,327	Employee Statutory Adjustment Account	24.4	5,633
2,333	Financial Instruments Adjustment Account	24.5	2,165
-7,717	Available for Sale Financial Instruments Reserve	24.6	-7,743
-221,861	**Total Unusable Reserves**		**-304,539**

23.1 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.

At 31st March 2018 the Council, in reflecting an agreed audit adjustment in the accounts, credited the Capital Adjustment Account rather than the Capital Fund for developer contributions totalling £0.249 million that were not yet applied. Opening Balances for 2018/19 have been amended to correct this.

Note 6 provides further details of transactions posted to the Account.

2017/18 £000		2018/19 £000
-202,329	**Balance at 1st April**	**-197,754**
	Adjustments to the opening balance	
-2,594	Adjustments relating to revalued assets funded from developer contributions	249
-230	Adjustment relating to PPP long term liability	0
-205,153	**Revised Balance at 1st April**	**-197,505**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
29,372	- Charges for Depreciation of non-current assets	30,139
12,744	- Charges for Downward Revaluation of non-current assets	-74,219
206	- Amortisation of intangible assets	232
2,239	- PPE non-current assets written off on disposal or sale	1,944
-301	- Revaluation loss on disposal or sale	-1,521
-9,235	- Adjusting amount written out to Revaluation reserve	-8,472
0	- Net revenue expenditure financed from capital under statute (REFFCUS)	164
0	-Capital Financed from Revenue Expenditure (CFCR)	-64
-203	Other movements	-1,060
-170,331	**Net written out amount of the cost of non-current assets consumed in year**	**-250,362**
	Capital Financing for the year:	
-2,416	- Use of Capital Receipts to finance new Capital expenditure	-482
319	- Capital Receipts transferred to the Capital Fund	457
-16,021	- Capital Grants and Contributions credited to the CIES	-24,557
-9,305	- Statutory Provision for the financing of capital investment	-10,420
-197,754	**Balance at 31st March**	**-285,364**

23.2 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.

2017/18 £000		2018/19 £000
-118,403	**Balance at 1st April**	**-110,563**
9,111	(Upward) / downward Revaluation of Assets	-32,275
-10,806	Downward revaluation of assets and impairment losses not charged to the Surplus / (Deficit) on the provision of services	-10,744
9,235	Adjusting amount from Capital Adjustment Account	5,565
301	Accumulated losses on assets sold	4,428
-1	Other movements	
-110,563	**Balance at 31st March**	**-143,589**

23.3 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.

2017/18 £000		2018/19 £000
118,041	**Balance at 1st April**	**85,513**
	Return on Pension Assets	
-44,600	Actuarial (gains) / losses arising on changes in financial assumptions	17,287
25,941	Reversals of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the CIES	36,488
-13,869	Employer’s pension contributions	-14,929
85,513	**Balance at 31st March**	**124,359**

23.4 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 (2017/18 -£0.041 million).

2017/18		2018/19
£000		**£000**
6,368	**Balance at 1st April**	**6,327**
-6,368	Settlement or cancellation of accrual made at end of preceding year	-6,327
6,327	Amounts accrued at the end of the current year	5,633
6,327	**Balance at 31st March**	**5,633**

23.5 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.

2017/18		2018/19
£000		**£000**
2,500	**Balance at 1st April**	**2,333**
-8	Proportion of equivalent interest rate calculation on lender option / borrower option loans	-9
-159	Change in share of equivalent interest rate calculation	-159
2,333	**Balance at 31st March**	**2,165**

23.6 Financial Instruments Revaluation Reserve

The Financial Instruments Revaluation Reserve contains the gains made by the Council arising from increases in the value of its investments that 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

2017/18		2018/19
£000		**£000**
-4,585	**Balance at 1st April**	**-7,717**
-3132	Revaluation of investments	-26
-7,717	**Balance at 31st March**	**-7,743**

24. Cash Flow Statement – operating activities

2017/18 £'000		2018/19 £'000
-31,034	**Net surplus or (deficit) on the provision of services**	**59,548**
	Adjustment to surplus or deficit on the provision of services for noncash movements	
29,372	Depreciation	30,139
11,697	Impairment & downward revaluations (& non-sale derecognitions)	-74,219
206	Amortisation	232
-69	(Increase)/Decrease in Inventories	13
384	(Increase)/Decrease in Debtors	-339
10,648	Increase/(Decrease) in Creditors	-981
12,072	Movement in Pension Liability	21,559
1,938	Carrying amount of non-current assets sold	1,944
699	Other non-cash movements and transfers to investing activities	-505
66,947		**-22,157**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
0	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	64,985
-2,098	Proceeds from the sale of PP&E, investment property and intangible assets	-482
-15,772	Capital grants included in Service expenditure and "Taxation & non-specific grant income"	-24,560
-17,870		**39,943**
18,043	**Net Cash Flows from Operating Activities**	**77,334**
	Operating activities within the cash flow statement include the following cash flows relating to interest	
772	Interest Received	40
-13,583	Interest Paid	-15,175
371	Dividends Received	438

25. Cash Flow Statement - investing activities

2017/18 £000		2018/19 £000
-28,312	Purchase of PP&E, investment property and intangible assets	-34,575
-25,000	Purchase of Short Term Investments (not considered to be cash equivalents)	-64,985
2,416	Proceeds from the sale of PP&E, investment property and intangible assets	1,302
48,452	Other Receipts from Investing Activities	28,523
-2,444	**Net Cash flows from Investing Activities**	**-69,735**

26. Cash Flow Statement - financing activities

2017/18 £000		2018/19 £000
320,500	Cash Receipts from Short and Long Term Borrowing	92,980
-1,336	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	-2,052
-336,771	Repayment of Short and Long Term Borrowing	-96,733
-17,607	**Net Cash flows from Financing Activities**	**-5,805**

27. 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 2018/19 is £0.244 million (2017/18 £0.291 million).

28. 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:

2017/18 £000		2018/19 £000
22,944	**Balance at 1st April**	**24,410**
0	Opening Balance Adjustment	-112
9,219	New capital grants received in advance, conditions of use not met	10,387
-5,159	Amounts released to CIES, conditions of use met	-3,644
-2,594	Adjustment in respect of prior year revaluations	0
24,410	**Balance at 31st March**	**31,041**

29. 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

A review of the Register of Senior Officers' interests has been conducted. Related party interests for which transactions exist in 2018/19 were declared by three officers:

> With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.001 million.
>
> With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.372 million.

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 2018/19 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 2018/19 were declared by seven members:

> With voluntary bodies or charitable organisations that received funding totalling an estimated value of £0.085 million.
>
> With businesses or other organisations that have contracted for goods and services with the Council to the estimated value of £0.489 million.

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

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 £0.523 million (2018/19 £0.562 million There was no balance due to or from the Lothian Valuation Board as at 31 March 2019.

The Council has a number of joint working arrangements with other local authorities. In 2018-19 payments of £1.596 million were made to other local authorities and income of £0.651 million was received from other local authorities.

The Council works in partnership with NHS Lothian, providing a range of Health and Social Care services across Midlothian. NHS Lothian transferred £4.922 million of resource transfer funding to the Council in 2018/19 in respect of activities delegated to the Midlothian Integration Joint Board, as well as an additional £4.816 million in relation to Social Care Fund and £1.457 million from the Integrated Care Fund. The funding supports various Adult Social Care services, both purchased and in-house.

The Council delegated resources totalling £39.932 million to the Midlothian Integration Joint Board in 2018/19. 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 2019 the Council held £1.633 million on behalf of the Board.

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.

30. 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.

The figures in the 2018/19 note are correct with the correct 2017/18 comparators. The figures in the 2017/18 accounts have not adjusted the opening CFR balance at 1 April 2016 to reflect the adjustment to the PPP finance lease principal repayments that were adjusted as part of the double count of Third Party Income in the PPP1 disaggregation model.

Restated 2017/18 £000	Restated 2017/18 £000		2018/19 £000	2018/19 £000
	333,527	**Opening Capital Financing Requirement**		333,678
		Capital Expenditure		
27,290		Property, Plant and Equipment	31,557	
216		Intangible Assets	0	
0		Revenue Expenditure funded from capital under statute	164	
-203		Long Term Liabilities	33,781	
	27,303			65,502
		Capital Financing		
-2,098		Capital Receipts	-3,304	
-11,515		Government Grants	-22,217	
-4,257		Contribution from Other Bodies	-2,403	
-9,282		Loans Fund and Lease Repayments	-11,482	
	-27,152			-39,406
	333,678	**Closing Capital Financing Requirement**		359,774
	151	**Increase in Capital Financing Requirement**		26,096

31. Commitments under capital contracts

As at 31 March 2019, the Council was contractually committed to capital works which amounted to £12.958 million (31 March 2018 equivalent £23.022 million).

The value of work completed as at 31 March 2019 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:-

- The new Hopefield Primary School: £9.327 million original contractual commitment; £8.767 million remaining commitment outstanding;
- Cuiken Primary School Extension: £1.296 million original contractual commitment; £1.135 million remaining commitment outstanding;

- HRA Phase III: Site 115, Castlelaw Terrace, Bilston: £1.017 million original contractual commitment; £1.017 million remaining commitment outstanding;
- HRA Phase II: Site 23, Woodburn Terrace, Dalkeith: £1.443 million original contractual commitment; £0.607 million remaining commitment outstanding.

The total value of retentions held as at 31 March 2019 amount to £0.878 million.

32. 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 where ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

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

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

The amounts payable to 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 on the outstanding Balance Sheet liability of:-
    - 9.69% for Dalkeith Schools PPP;
    - 7.29% for Midlothian Primary Schools; and
    - 5.06% for Newbattle Community Campus;

  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 month's notice.

- The third is for the provision and lifecycle maintenance of the Newbattle Community Campus and is a 25 year contract with hubCo. 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. At 31 March 2019 the contract was in the commissioning phase, with Full Service Commencement achieved on 17 April 2019. The asset will be fully maintained throughout the life of the contract in accordance with the Partner Council's requirements and will be inspected 18 months prior to the end of the contact (contract end date 06 May 2044) to 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 a 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, the Primary Schools PPP and the Newbattle Community Campus 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 2019 is £99.584 million (2017/18 £64.284 million). The movement is in year depreciation of £1.117 million, revaluation £0.173 million and additions £36.244 million (2017/18 £1.117 million depreciation and £0.013 million additions).

There is a deferred liability at 31 March 2019 for the financing of these assets of £85.135 million (2017/18 £53.406 million), with the movement including the recognition of the Newbattle Centre deferred liability opening balance of £33.781 million.

During the year a total of £2.052 million (2017/18 £1.336 million) was paid in relation to finance lease liabilities under the PFI contracts. Details of payments to be made under PFI arrangements are:

Dalkeith Schools Campus

Period	Liability £000	Interest £000	Service Charge £000	Total £000
Within 1 year	764	2,163	2,025	4,952
Within 2 to 5 years	3,872	7,835	8,619	20,326
Within 6 to 10 years	7,362	7,272	12,043	26,677
Within 11 to 15 years	10,322	2,944	12,288	25,555
Total Remaining Contract	**22,320**	**20,214**	**34,975**	**77,510**

Midlothian Primary Schools

Period	Liability £000	Interest £000	Service Charge £000	Total £000
Within 1 year	807	2,162	2,014	4,982
Within 2 to 5 years	3,860	8,013	8,570	20,444
Within 6 to 10 years	6,636	8,206	11,975	26,817
Within 11 to 15 years	9,436	5,406	13,548	28,391
Within 16 to 20 years	8,897	1,530	10,583	21,010
Total Remaining Contract	**29,637**	**25,317**	**46,690**	**101,644**

Newbattle Community Campus

Period	Liability £000	Interest £000	Service Charge £000	Total £000
Within 1 year	732	1,678	122	2,532
Within 2 to 5 years	3,318	6,322	518	10,157
Within 6 to 10 years	5,183	6,867	723	12,773
Within 11 to 15 years	6,633	5,417	818	12,868
Within 16 to 20 years	8,488	3,561	926	12,976
Within 21 to 25 years	8,824	1,171	860	10,855
Total Remaining Contract	**33,177**	**25,016**	**3,967**	**62,161**

33. 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 2018/19 the Council paid £6.479 million (2017/18 £6.098 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 17.2% (2017/18 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 2018/19 the Council paid an employer contribution of £14.929 million (2017/18 £13.689 million) into the Lothian Pension Fund, representing 21.9% (2017/18 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 2020 will be £14.068 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

2017/18		**2018/19**
£'000		**£'000**
	Net cost of services:	
22,694	Current Service Cost	24,738
66	Past Service Costs (including curtailments)	9188
	Net operating expenditure:	
15,898	Interest cost	15,952
-12,717	Expected return on scheme assets	-13,390
25,941	**Net charge to CIES**	**36,488**

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 losses of £17.287 million (2017/18 gain of £44.601million) were included in other comprehensive income and expenditure in the CIES.

Assets and Liabilities in relation to retirement benefits

2017/18 £000	Reconciliation of present value of the scheme liabilities:	2018/19 £000
£605,968	Opening Balance	**£579,547**
22,694	Current Service Costs	24,738
15,898	Interest Cost	15,952
3,629	Contribution by Members	3,835
-54,266	Actuarial losses/(gains)	50,778
66	Past Service Costs (including curtailments)	9188
-828	Estimated Unfunded Benefits Paid	-826
-13,614	Estimated Benefits Paid	-13,440
579,547	**Balance at 31 March**	**669,772**

2017/18 £000	Reconciliation of fair value of the scheme assets:	2018/19 £000
487,926	Opening Balance	494,034
12,717	Expected return on Assets	13,390
3,629	Contributions by Members	3,835
13,041	Contributions by the Employer	14,103
828	Contribution in respect of unfunded benefits	826
-9,665	Actuarial gains / (losses)	33,491
-828	Unfunded Benefits paid	-826
-13,614	Benefits paid	-13,440
494,034	**Balance at 31 March**	**545,413**

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 £669.772 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £124.359 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 2018/19 was 353% 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:

2017/18		2018/19
	Longevity at 65 for current pensions (Mortality):	
21.7	Men (years)	21.7
24.3	Woman (years)	24.3
	Longevity at 65 for future pensions (Mortality):	
24.7	Men (years)	24.7
27.5	Woman (years)	27.5
2.40%	Inflation / Pension Increase Rate	2.50%
4.10%	Salary Increase Rate	4.20%
2.70%	Discount Rate	2.40%

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:

31/03/2018		Quoted prices in active markets £(000)	Quoted prices not in active markets £(000)	Total £(000)	Percentage of Total Assets
		Period Ended 31 March 2019			
	Equity Securities				
14%	Consumer	61,006.1		61,006.1	11%
15%	Manufacturing	50,934.5		50,934.5	10%
6%	Energy and Utilities	39,522.9		39,522.9	7%
9%	Financial Institutions	45,165.0		45,165.0	8%
5%	Health and Care	30,564.5		30,564.5	6%
6%	Information Technology	18,588.6		18,588.6	3%
6%	Other	68,126.6		68,126.6	12%
	Debt Securities				
0%	Corporate Bonds (investment grade)				0%
2%	Corporate Bonds (non investment grade)				0%
10%	UK Government	59,902.1		59,902.1	11%
0%	Other				0%
	Private Equity				
2%	All	257.1	5,489.9	5,747.0	1%
	Real Estate				
6%	UK Property		35,115.8	35,115.8	7%
0%	Overseas Property				0%
	Investment Trusts and Unit Trusts				
1%	Equities		5,479.6	5,479.6	1%
0%	Bonds		16,571.1	16,571.1	3%
0%	Hedge Funds				0%
0%	Commodities				0%
12%	Infrastructure	8,293.9	58,404.8	66,698.7	12%
0%	Other	865.2		865.2	0%
	Derivatives				
0%	Inflation				0%
0%	Interest Rate				0%
0%	Foreign Exchange				0%
0%	Other	134.8		134.8	0%
	Cash and Cash Equivalents				
6%	All	40,990.5		40,990.5	8%
100%	**Totals**	**424,352**	**121,061**	**545,413**	**100%**

Projected defined benefit cost for the period to 31 March 2020

Analysis of projected amount to be charged to operating profit for the period to 31 March 2020

Period ended 31 March 2019	**Assets**	**Obligations**	**Net Liability / (asset)**	
	£000	£000	£000	% of pay
Projected Current Service cost *		28,396	-28,396	-43.80%
Past service cost including curtailments		-	-	-
Effect of settlements	-	-	-	-
Total Service Cost	**0**	**28,396**	**-28,396**	**-43.80%**
Interest income on plan assets	13,141		13,141	20.30%
Interest cost on defined benefit obligation		16,286	-16,286	-25.10%
Total Net Interest Cost	**13,141**	**16,286**	**-3,145**	**-4.80%**
Total Included in Profit and Loss	**13,141**	**44,682**	**-31,541**	**-48.60%**

*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 £64.758 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 2018), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to March 2020 are set out in the Rate and Adjustments certificate.

Investment Returns

Actual Returns from 31 March 2018 to 31 March 2019	9.4%
Total Returns from 1 April 2018 to 31 March 2019	**9.4%**

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 2019 the liability for Pensions sits at £8.884 million. As a consequence the Council has additional liabilities arising from the pension deficit of the Lothian Valuation Joint Board.

34. 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. At the current time the Council has five ongoing cases. These are currently at differing stages which range from waiting on further information from the pursuer's solicitors to cases being handled by our insurers, where the extent of our cover and the level of excess payable is being investigated. Of these ongoing cases there has been no value cited in the letter of claim and little case law to give any indication of what value might be attached to the case.

The Council was unsuccessful in its legal claim to recover its losses with regards the demolition of 64 Council Houses at Newbyres Crescent and Gore Avenue, Gorebridge due to inadequate ground gas defence systems resulting in high levels of carbon dioxide. The Council has decided not to appeal and is no longer pursuing recovery of any costs, however the Court of Appeal made an award of expenses in favour of the main defendant of £0.161 million and these have been provided for in the accounts. There is also the potential for the other two contractors involved in the legal action to seek to recover their expenses involved in defending the court action. However at this time the nature, timing and extent of any claim is unknown.

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.

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

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

The main funds are:

2017/18 £000		2018/19 £000
13	Dalkeith Common Good	11
2	Penicuik Common Good	2
56	Community Mining Funds	51
20	Other Funds	21
91	**Total**	**85**

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.

36. Post balance sheet events

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Annual Accounts are authorised for issue. There are two types of events:

- Adjusting events – those that provide evidence of conditions that existed at the end of the reporting period and the Statements are adjusted to reflect such events;
- Non-adjusting events – those that are indicative of conditions that arose after the reporting period and the statements are not adjusted. Where a category of events would have a material effect, disclosure is made in the notes of the nature of the event and its estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Annual Accounts.

Any events occurring after the reporting period will be disclosed in the audited version of these accounts.

37. General Fund Balance

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

	Balance at 1 April 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 1 April 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'000	Balance at 1 April 2019 £'000
General Fund Balance	**-17,651**			**-10,777**			**-8,637**
Movement in Earmarked Reserves							
Scheme of Devolved Budget Management carry forwards	-3,635	3,635	-3,244	-3,244	3,244	-3,220	-3,220
Business Transformation Programme	-4,607	2,592	0	-2,015	1,571	-306	-750
Delegated to schools under the Devolved School Management policy	-1,425	1,425	-1,181	-1,181	1,181	-364	-364
Training Budget	0	0	0	0	0	-199	-199
Borders Rail	-196	196	0	0	0	0	0
Total in Earmarked Reserves	**-9,863**	**7,848**	**-4,425**	**-6,440**	**5,996**	**-4,089**	**-4,533**
Uncommitted General Fund Balance at 31 March	**-7,788**			**-4,337**			**-4,104**

38. Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2018/19 (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	£000	£000	£000
Subsidiaries					
Trusts, bequests, common good fund and community funds	100	85	85	-1	1
Pacific Shelf 826 ltd	100	0	41	0	2

Associates					
Lothian Valuation Joint Board	9.19	209	812	-1,034	-165
Midlothian Integration Joint Board	50	1,939	0	-70	-1489

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 and community funds	To award grants across Midlothian.	Midlothian Council, Midlothian House Dalkeith
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 £1.758 million which would equate to a share of £0.033 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 2019

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

2017/18 £000		**2018/19 £000**	**per house per week £**
	Income		
25,861	Gross dwelling rents	27,223	76.47
815	Service Charge Income	1,158	3.25
344	Non dwelling rents	356	1.00
38	Other Income	64	0.18
27,058		**28,801**	**80.90**
	Expenditure		
5,536	Repairs and Maintenance	6,040	16.97
4,966	Supervision and Management	5,035	14.14
7,125	Depreciation of Non-Current Assets	7,511	21.10
9,330	Valuation Gain of Non-Current Assets	-72,616	-203.98
1,881	Other Expenditure	2,372	6.66
600	Increase / (Decrease) in Bad Debt Provision	50	0.14
29,438		**-51,608**	**-144.97**
2,380	**Net Cost of HRA services per the whole Council**	**-80,409**	**-225.87**
	Comprehensive Income and Expenditure Account		
250	HRA share of Corporate and Democratic Core	250	0.70
2,630	**Net Cost of HRA Services**	**-80,159**	**-225.16**
	HRA share of the operating income and expenditure included in the whole Council accounts		
-432	Loss / (Gain) on sale of HRA non-current assets	23	0.06
6,226	Interest Payable and similar charges	6,166	17.32
-207	Interest and Investment Income	-364	-1.02
123	Net Defined Benefit Liability and Expected Return on Pension Asset	99	0.26
8,340	**Deficit / (Surplus) for the year on the HRA Services**	**-74,235**	**-208.53**

Movement on the HRA Statement for year ended 31 March 2019

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.

2017/18 £000		2018/19 £000	per house per week £
8,340	**Deficit for the year on the HRA Income & Expenditure Account**	**-74,235**	**-208.53**
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
432	Gain/(loss) on sale of HRA non-current assets	-23	-0.06
-12,372	Transfer to/(from) Capital Adjustment Account	69,561	195.40
-510	HRA share of contributions to/from pension reserve	-524	-1.46
-4,110	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**-5,221**	**-14.65**
-29,753	**Housing Revenue Account Balance brought forward**	**-33,863**	**-95.12**
-33,863	**Housing Revenue Account Balance carried forward**	**-39,084**	**-109.77**

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 2019 the Council had 6,846 houses (31 March 2018 6,793) which can be analysed as follows:

2017/18 Number	**Type of Dwelling**	**2018/19** Number
878	1 Bedroom	897
3,767	2 Bedroom	3,794
1,828	3 Bedroom	1,835
310	4 Bedroom	310
10	5 / 6 Bedroom	10
6,793	Total	**6,846**

3. Rent Arrears

At the end of the year rent arrears amounted to £3.459 million (2017/18 £3.229 million) for which a provision for bad and doubtful debts of £1.650 million (2017/18 £1.6 million) exists.

4. Void Properties

The total value of uncollectable void rents for main provision properties amounted to £0.574 million (2017/18 £0.554 million).This has been netted against rental income.

Council Tax Income Account

Income and expenditure account

For the year ended 31 March 2019

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).

2017/18		2018/19
£000		£000
52,045	Gross Council Tax levied and Contributions in Lieu	54,775
	Less :	
5,211	Discounts	5,505
4,759	Council Tax Reduction Scheme	4,832
1,398	Write-off of Uncollectable Debts and Allowances for Impairment	1,470
40,677		**42,968**
21	Adjustments to previous years Community Charge and Council Tax	-42
40,698	**Transfers to the General Fund**	**42,926**

Notes to the Council Tax Income Account

Calculation of the Council tax base for the year 2018/19

Property Bands

	A - disabled	A	B	C	D	E	F	G	H	Total
Properties	0	977	12,535	10,972	5,512	4,963	3,561	2,267	179	40,966
Disabled relief	2	38	33	-45	1	-1	-7	-19	-2	0
Less										
Exemptions		70	477	278	97	179	53	35	4	1,193
Discounts	1	145	1,422	915	379	257	116	61	4	3,299
Discounts	-	1	6	5	2	2	3	2	-	20
Other		3	19	22	13	6	3	2	1	68
Council Tax Reduction	1	233	2,399	1,376	260	109	35	18	-	4,430
Effective	1	564	8,245	8,332	4,763	4,410	3,344	2,130	169	31,957
Ratio to band D	5/9	6/9	7/9	8/9	9/9	473/360	585/360	705/360	882/360	
Band D	0	376	6,413	7,406	4,763	5,794	5,434	4,172	413	34,770
Contributions in lieu – Band D										210
Total Council Tax Base										**34,981**
Provision for non payment										-1,179
Total										**33,802**

Number of properties and charges for each band

Band	**A - disabled**	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Numbers	-	564	8,245	8,332	4,763	4,410	3,344	2,130	169	31,956
£	712.78	855.33	997.88	1,140.44	1,283.00	1,685.72	2,084.87	2,512.54	3,143.35	

Non-Domestic Rates Income Account

Income and expenditure account

For the year ended 31 March 2019

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.

2017/18		2018/19
£000		**£000**
40,828	Gross rates levied	43,123
	Less:	
8,609	Reliefs and other deductions	9,500
513	Write-offs of uncollectable debts and allowance for impairment	554
-866	Adjustments to previous years	2,978
32,572	**Net Non Domestic Rate Income**	**30,091**
0	Non-Domestic Rate Income Retained by Authority (BRIS)	111
32,572	**Contribution to Non-Domestic Rate Pool**	**30,202**
	Allocated:	
32,641	Contribution to national non-domestic rates pool	30,083
-69	Midlothian Council	-104
32,572		**29,979**

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 £28.115 million (2017/18 £29.273 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 48p per £ (2017/18 46.6p per £) where the rateable value was less than or equal to £29,000 and 50.6 per £ (2017/18 49.2p 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 business's 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 2017/18	Rateable Value 2017/18 £000		Number 2018/19	Rateable Value 2018/19 £000
1,862	48,898	Shops, Offices and Other Commercial Subjects	1,868	48,636
937	17,258	Industrial and Freight Transport	951	17,288
302	20,705	Miscellaneous (Schools etc)	304	21,299
3,101	**86,861**		**3,123**	**87,223**

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 pension’s 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 who's 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.