



Midlothian

**Midlothian Council  
Audited  
Financial Statements  
2014/15**



# **Financial Statement 2014/15**

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# Management Commentary by the Head of Finance and Integrated Service Support

## Introduction

The Financial Statements present the financial performance of Midlothian Council for the year to 31 March 2015. They are prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice in the United Kingdom (The Code) and are necessarily technical in places. The Management Commentary outlines Financial Performance for the year, Financial Outlook and Risks and also provides non-financial strategic and contextual information about the Council.

## Financial Performance

The Council's financial performance is presented in the Comprehensive Income and Expenditure Account (CIES) on page 16. 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 Movement in Reserves Statement on page 15 and in more detail in note 5 on page 35.

## General Fund

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules provide otherwise. The General Fund is funded by Governments Grants, Fees and Charges, Council Tax Income, Non Domestic Rates Income and interest / returns on investments and is split between uncommitted balances, which are held to manage financial risks and unplanned expenditure, and balances which have been earmarked for specific purposes.

The outturn position for the General Fund compared to budget in 2014/15 is shown in the following table. Full details will be reported to Midlothian Council on 23rd June 2015 and are available on the Council's website.

Table 1: General Fund – Performance against Budget

<b>Service Area</b>	<b>Budget £000</b>	<b>Net Expenditure £000</b>	<b>(Under) / Overspend £000</b>
Childrens Services	15,020	14,864	(156)
Communities and Economy	4,315	3,346	(969)
Education	75,444	74,654	(790)
Adult Social Care	35,948	35,491	(457)
Customer and Housing Services	13,095	12,613	(482)
Commercial Services	15,709	15,849	140
Finance and Integrated Service Support	12,552	12,760	208
Properties and Facilities Management	13,857	12,912	(945)
Investment Income	(180)	(301)	(121)
Loan Charges	8,348	7,502	(846)
Other Expenditure / (Income)	578	1,795	1,217
<b>Net Service Expenditure</b>	<b>194,686</b>	<b>191,485</b>	<b>(3,201)</b>
Council Tax Income	(38,816)	(39,558)	(742)
Scottish Government Grant	(151,940)	(152,731)	(791)
<b>General Fund Utilisation of Reserves</b>	<b>3,930</b>	<b>(804)</b>	<b>(4,734)</b>

Actual net service expenditure for the year was £191.485 million representing 98.4% of the £194.686 million budget. General Fund services showed a net underspend against budget of £4.734 million. Funding through Council Tax and Scottish Government Grant was £1.5m more than budgeted. The sustained increase in housing in Midlothian outstripped the level of Council Tax income growth built into budgets and in-year collection improved to 93.8%. Direct debit now accounts for 72% of total Council Tax income collection which is an increase of over 1% on 2013/14. One-off backdated income of £0.366 million relating to the Non Domestic Rates Business Rates Incentivisation Scheme contributed to higher than budgeted Scottish Government Grant Income along with an element of funding covering areas already budgeted for.

# Management Commentary by the Head of Finance and Integrated Service Support

Demographic and demand led pressures are significant and are built into budgets as they are developed. In 2014/15 costs were £1.2m less than budgeted reflecting better control of demand in some areas and a delayed impact of pressures in others. Slippage in Capital programmes allowed deferment of long term borrowing coupled with opportunities afforded by the continuing low interest environment gave rise to a £0.8 million underspend against budget. Encouragingly the Council also saw some areas with significantly lower running costs than budgeted.

The General Fund Reserve at the start of the year was £20.511 million, of which £8.547 million was earmarked for specific purposes in 2014/15. The position at 31st March 2015 is a reserve of £21.315 million of which £8.472 million was earmarked for specific purposes leaving £12.843 million as a contingency. The contingency is £0.879 million more than at 31st March 2014 and is above the targeted prudent level of 4% of net expenditure which equates to approximately £8 million. It represents 6.6% of budgeted net expenditure which is 0.2% more than the position at 31<sup>st</sup> March 2014.

The earmarked element of the reserve includes ring-fenced funding from partner organisations of £3.2 million, budgets provided for specific purposes where spend has slipped into 2015/16 of £1.7 million, budgets for schools in accordance with the Scheme of Devolved School Management of £1 million and funding to support the Council Transformation Programme of £2.3 million.

In line with previous Council decisions a number of specific initiatives were funded from uncommitted reserves during the year including staff severance costs and Holiday pay liabilities for a group of employees in accordance with the recent European Court of Justice judgement.

## Housing Revenue Account

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

The HRA showed a surplus of £3.002 million in 2014/15 and this increased the reserve to £21.376 million. There was an underspend of £0.346 million against budget mainly due to Loan Charges where longer term borrowing was able to be deferred due to slippage in the Capital Programme.

The council has an ambitious capital investment plan to build new housing stock and continues 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.

In 2014/15 £4.9 million was spent on new council houses and £5.2 million on SHQS improvement works. In the period to 31 March 2018 it is planned to spend a further £46 million on new council houses and £17 million on SHQS improvements.

## Capital

The Council continues to make significant capital investment in its assets spending £11.4 million in 2014/15. This included £3.9 million on roads, pavements and street lighting, £2.9 million on school upgrades and £2.2 million on replacing and upgrading the Council's fleet. The main source of funding was government grants. A full analysis of capital expenditure and financing is provided in note 32 to the financial statements on page 55.

The Council is able to regulate its own capital spending limits within a prudential framework recommended by 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.

# Management Commentary by the Head of Finance and Integrated Service Support

The Capital Financing Requirement represents the Council's underlying need to borrow for capital expenditure. It is not allowed to rise indefinitely and statutory controls exist to ensure debt is affordable and repaid over a reasonable timeframe. The Council's underlying need to borrow for 2014/15 at the time the budget was set was £273.855 million. The actual position was £253.909 million with total debt at 31st March 2015 of £234.705 million demonstrating that the Council maintains its intention to have an under borrowed position. This means that the Council's capital borrowing requirement has not been fully funded by loan debt and is using cash from 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 £336.676 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 £273.915 million is an estimate of the most likely 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. Actual figures for General Services were 3.9% which is in line with approved strategy and 34.2% for HRA which is reflected in long term HRA financial plans to 2029/2030.

The measure of the impact of capital investment on council tax and weekly rents shows the change in council tax and rents necessary to support increased spending on capital plans and helps to illustrate their affordability. In 2014/15 there was a reduction of £8.37 for General Services which was a consequence of lower than planned Capital Expenditure coupled with a low average cost of borrowing. The impact on house rents was a reduction of £0.49 per week which again falls well within long term HRA plans.

The General Services capital plan for future years will see further major investment in school infrastructure including Newbattle High School. There will also be investment in the roads infrastructure and ongoing asset management replacement plans for buildings, fleet and information technology.

## 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 2015 long term borrowing amounted to £193.143 million. During 2014/15 new long term borrowing of £10 million was taken from the Public Works Loans Board (PWLB). Interest rates on new borrowing remained at historically low rates and also benefited from a 0.2% discount that was offered by the Treasury. The average rate of interest paid on external debt decreased to 3.59% in 2014/15 from 3.68% in 2013/14. The internal loans fund rate also decreased from 3.46% in 2013/14 to 3.23% in 2014/15 and is 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 14 to the Financial Statements.

## **Assets and Liabilities**

The Balance Sheet on page 17 summarises the Council's assets and liabilities as at 31st March 2015. Total net assets decreased by £87.847 million from the position at 31<sup>st</sup> March 2014.

## Non-current and Current Assets

Operational and non operational assets decreased in value by £37 million mainly due to a downward revaluation of the Council's housing stock which was fully revalued in the year. Short term investments increased by £40 million and cash and cash equivalents reduced by £22 million reflecting a net increase in the amount of cash placed on deposit but with a much larger value having a maturity greater than 3 months. This position is consistent with slippage experienced in capital programmes in 2014/15 and the expected timing of capital expenditure in 2015/16.

# Management Commentary by the Head of Finance and Integrated Service Support

## Net Pension Liability

The net pension liability of the Council as at 31st March 2015 was calculated in accordance with the requirements of International Accounting Standard 19 (IAS 19) and amounts to £115.549 million which is an increase of £35.128 million from 31st March 2014. The main reason for this is the result of a reduction in the net discount rate over the period. IAS 19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.

It should be noted this is a snapshot of the position at 31st March 2015. The actuarial valuation of the Lothian Pension Fund, which takes a longer term view, will consider the appropriate employer's rates and this, together with revenues generated from the Pension Fund investments, will be used to meet the fund's commitments as they arise. The actuarial valuation at 31st March 2014 shows a funding level of 93% of liabilities which is a reduction from 98% funding at the last valuation at 31<sup>st</sup> March 2011. This has no immediate impact on the council budget until 2018/19 where a 0.5% increase in employers contribution rate is anticipated.

## Provisions, contingencies and write offs

The Council has made provisions for potential liabilities in respect of unsettled insurance claims of £1.222 million and future dated voluntary severance costs of £0.528 million for employees as part of future workforce planning. The Council's total estimated liability for Equal Pay is broadly the same as that provided for as at 31st March 2014. It is anticipated that all outstanding claims will be settled during 2015/16.

The provision for non collection of debt at 31st March 2015 was £29.9 million which is a slight reduction on the position a year ago. There were a number of immaterial write offs approved by Cabinet during the year.

## **Financial Outlook and Key Risks**

The current economic climate impacts on the Council and the services it provides in a number of ways. From a financial perspective 2014/15 saw continued demographic pressures particularly around elderly care and population growth in Midlothian. It is expected that these pressures will be sustained and they present a considerable challenge to the Council in both financing them and transforming services to improve ways of preventing some of these pressures arising. Welfare reform and the integration of health and social care are major policy developments that will not only impact on the council budgets but also change the way services are provided.

Whilst the Scottish Government have provided indicative grant figures for 2015/16 Councils are currently unaware of the level of funding that will be available to them beyond then. The public sector continues to face the impact of very tough spending reductions and recent announcements by central government indicate this will continue. It is therefore inevitable this will have an adverse impact on the amount of central funding available to the Council.

In the context of reduced funding and growth in demand for services the Council have a considerable challenge to ensure future expenditure plans are sustainable and achieved with minimal impact on front line service delivery. Latest projections for 2016/17 to 2017/18 show a budget gap of approximately £5 million with potential for a significant increase when extending the timeframe into the next decade.

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

## Treasury Risk

Financial year 2014/15 saw an improvement in the UK economy with the risk of further banking failures reduced. The Council continues to mitigate any risks associated with the security of cash deposits through use of only institutions approved as counterparties and operating with restrictions on funds that can be placed with each institution. Regular and detailed advice is provided by the Council's treasury advisers ensuring that any market changes impacting on the approved investment strategy can be acted upon immediately.

Treasury strategy is updated regularly following discussion with treasury advisers to ensure that the Council maintains adequate cash balances to support investment plans and that any movements in current or forecast borrowing rates are reflected.



# Management Commentary by the Head of Finance and Integrated Service Support

## Strategic Plans and Performance

Community Planning partners have agreed the vision for Midlothian as “Midlothian – a great place to grow”. The key priorities that have been identified are:

- Economic growth and business support – we will increase economic growth as a basis for a more prosperous Midlothian;
- Positive destinations for young people – this priority is particularly important to us because life chances can be improved for our greatest assets;
- Early years – Getting it Right for Every Midlothian Child.

Three approaches to how the Council works with its communities have been agreed – preventative intervention, co-production and capacity building and localising / modernising access to services. The Single Midlothian Plan incorporates five overarching thematic groups which support the achievement of outcomes. The thematic approach is used for quarterly performance reporting and the themes are as follows:

- Adult Health, Care – responding to growing demand for the adult social care and health services;
- Community Safety – Ensuring Midlothian is a safe place to live, work and grow up in;
- Getting it Right for Every Midlothian Child – Improving outcomes for children, young people and their families;
- Improving Opportunities for People in Midlothian – Creating opportunities for all and reducing inequalities;
- Sustainable Growth – Growing the local economy by supporting business growth and responding to growing demand for housing in a sustainable environment.

During 2014/15 the Council demonstrated significant progress towards these priorities and this is documented in detail in the Midlothian Council Annual Performance Report – 2014/15 that was presented to Performance Review and Scrutiny Committee on Wednesday 3<sup>rd</sup> June 2015 and can be viewed on the Council website.

Over the last 4 years all 32 Scottish councils have been working with the Improvement Service to develop a common approach to benchmarking, which is grounded in standard information on council services provided to local communities across Scotland. This work has resulted in a national dataset comprising of 60 indicators in 2013/14 although only 51 of these applied to Midlothian. Results showed the council in the top quartile for 12 indicators, the second quartile for 16, the third for 13 and the bottom quartile for 10. Analysis of these results has taken place and plans are in place to improve performance. Data for 2014/15 will not be available until later in the year. Detailed information on 2013/14 results was reported to Performance Review and Scrutiny Committee on Wednesday 11<sup>th</sup> March 2015 and can be found on the Council’s website.

In 2013 the Council published its first Equality Outcome and Mainstreaming report covering the period from 2013 to 2017. It concentrated on key areas of inequality as determined by local communities and balanced those with national areas of concern. This means that outcomes centre on community safety, socio-economic deprivation, the old and the very young, children’s services, improving opportunities in Midlothian and sustainable growth. More information can be found on the Equality and Diversity section of the Council’s website.

The Council’s plans for Sustainable growth are outlined in the Single Midlothian Plan and include supporting local economies and emerging markets in recycling and renewable technologies and developing and providing practical solutions to support our ways of living. Progress is being made towards delivering these plans and can be seen in detail in the Sustainable Development section of the Council’s website.

## Structure of Council Leadership and Council Staff

The political makeup of the Council is 8 SNP members, 8 Labour members, 1 Green party member and 1 independent member. The SNP together with the independent member form the administration with the Leader of the Council being Owen Thompson and the Provost being Joe Wallace. The Council’s Chief Executive is Kenneth Lawrie and it is structured in 3 Directorates:

# Management Commentary by the Head of Finance and Integrated Service Support

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

At the 31<sup>st</sup> March 2015 the Council had 4,365 employees on its payroll of which 3,228 were female and 1,137 male. The Council's Leadership Team consists of the Chief Executive, Directors and eight Heads of Service and has a gender split of 7 male and 5 female.

Sickness Absence days per employee in 2014/15 was 8.85 days. This is slightly more than 8.73 days experienced in 2013/14 which ranked 7<sup>th</sup> out of all Scottish Local Authorities.

## Emerging Issues, Service Changes and Future Developments

During 2013/14 it was established there was excessive Carbon Dioxide levels present in some Council houses at the Newbyres development in Gorebridge. Almost all of the residents have now been decanted to other housing and the site will be demolished in due course. The impact of this has been reflected in the Balance Sheet.

In May 2015 there was a major fire in the former Hopefield Primary School which was being used in the interim as a records storage facility. The vast majority of its contents were destroyed and the building was damaged to the extent that it needed demolished. The carrying value of the asset in the Balance Sheet does not reflect any impairment and this will be reflected in the 2015/16 accounts.

Implementation of Health and Social Care reform in Midlothian is well underway with a Joint Board established to oversee service provision previously carried out by NHS Lothian and Midlothian Council. The Board, which will be formally established on 27<sup>th</sup> June, has responsibility for governance, financial management and commissioning future care services across Midlothian. Council and NHS budgets are integrated to form a pool of resource which will have the flexibility to be redirected within the partnership to address service pressures.

The Borders Rail line opened in September 2015 and, alongside service enhancement to local residents and visitors, will present economic development opportunities in Midlothian, particularly in areas with close proximity to stations. The Council is currently engaged with partners to maximise these opportunities and has provide funding of £0.250 million to support this.

Plans to replace Newbattle High School are well developed but are currently experiencing a delay due to a technical accounting issue stemming from a recent European directive. Councils affected by this are working with the Scottish Futures Trust and the Scottish Government to iron out this issue and it is hoped that the Newbattle project will reach financial close later in 2015.

## Conclusion

Sound financial management and planning has allowed the Council to successfully manage its activities within budget during 2014/15 whilst continuing to invest in its assets and in new major strategic initiatives. Significant financial challenges lie ahead and work continues to manage these.

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**  
**29 September 2015**

## **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's Responsibilities**

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Head of Finance and Integrated Service Support;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to approve the Statement of Accounts.

### **The Head of Finance and Integrated Service Support's Responsibilities**

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

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

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code, 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 at 31 March 2015 and its income and expenditure for the year then ended.

**Signed:**

**Gary Fairley**  
**Head of Finance and Integrated Service Support**  
**29 September 2015**

# Annual Governance Statement

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

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

In order to achieve this, the Council has developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives' (SOLACE) framework. The Code was reviewed and updated in 2013. The Council also has a number of officials in statutory posts who monitor governance and the supporting processes during the year. These are the Head of the Paid Service, the Monitoring Officer, the Chief Finance Officer and the Chief Social Work Officer.

Midlothian Council's financial management arrangements conform to the requirements of the CIPFA Statement on the role of the Chief Financial Officer in Local Government.

The governance elements include:

allocating responsibility for maintenance of proper financial records and accounts and for maintaining effective systems of internal control; appointing a Monitoring Officer with responsibility to ensure that the Council, its officers, and its Elected Members, maintain the highest standards of conduct; establishing a scheme of delegated powers; establishing and enforcing a code of conduct for officers; having effective scrutiny and challenge arrangements in place over officer and Council decisions; open and effective recording of Council decisions; risk management processes; whistle blowing and fraud prevention procedures and processes; providing induction and training for Elected Members and Council officers; and encouraging individuals from all sections of the community to engage with the Council.

Each year, using an assurance template, evidence is gathered relating to the governance framework and the level of compliance with the Code of Corporate Governance. This includes all 8 Heads of Service completing a self assessment. Internal Audit checks a sample of the control elements in the Code of Corporate Governance so that each is tested on a three year cycle to determine their effectiveness. Any areas for improvement that are identified through these checks are recorded in the governance improvements section of the AGS below. Furthermore, the assurance elements are, where necessary, discussed with senior management.

The statement has also been informed by the work undertaken by Internal Audit who following the requirements of the Local Authority Accounts (Scotland) Regulations 2014 conducted an annual review of the effectiveness of the Council's system of internal control. The Internal Audit Manager concluded that based on the work undertaken in 2014/15 by the Internal Audit Section that overall, internal controls had been implemented and were being monitored by management in line with Financial Directives, Council Policies and the other key essentials of a robust Internal Control Environment.

The results from these reviews were presented to the May 2015 Audit Committee of the Council along with the Annual Governance Statement for approval.

A number of governance improvements were highlighted in the 2013-14 self assessment and progress has been made in 2014-15 on the following:

- having a positive impact on the key priorities of economic recovery and business growth; positive destinations for young people; and early years – getting it right for every Midlothian child;

This action is ongoing with performance monitored through the quarterly performance reports submitted to Cabinet and the Performance and Scrutiny Committee. There has been significant improvement in the Council's positive destinations performance indicator in 2014/15.

- embedding the new management structure and ensuring that appropriate controls and segregations are maintained;

The new management structure was approved by Midlothian Council on 13 May 2014 and implemented by 1 July 2014. Procedures are in place to ensure appropriate controls and segregations are maintained.

## Annual Governance Statement

- the delivery of the approved financial strategy and mechanisms to ensure that the necessary financial savings are achieved and more efficient processes are introduced at reduced cost;

This action is ongoing and updates are provided through regular reports to Council. Delivering financial sustainability will continue to be a challenge over the coming years.

- continued development of risk management processes by aligning risk assessments with service planning and mitigation of risks associated with delivering the Council's outcomes;

A revised approach to risk management was approved in February 2014. This new approach is being implemented and will continue to be monitored.

- procurement reform arising from the Procurement Reform Bill and new EU Directives;

This action is to be incorporated into the Procurement Improvement Plan and progress will continue to be monitored.

- continued compliance with the Public Services Network code of connection requirements;

The 2015/16 PSN Code of Connection has been submitted to the Cabinet Office on 2 April 2015 for approval. Following a positive independent IT Health Check and review of PSN required controls, it is likely that the Council will maintain ongoing PSN compliance.

- responding to the impact of further Welfare Reform changes;

This action is underway but not fully completed.

- the Health and Social Care Integration agenda with the continued establishment of joint services;

The Midlothian Integration Scheme was approved by the Scottish Government on 27 June 2015 and has now been legally constituted with the first Board meeting of the Integrated Joint Board being held on 20 August 2015. Work is underway to develop a Strategic Plan for Health and Social Care in Midlothian and to determine the financial resources required to support the plan going forward with agreed budgets to be allocated to the Integrated Joint Board by April 2016. Following approval of the Strategic Plan in December 2015 by the Integrated Joint Board it will issue directions to the NHS Lothian and Midlothian Council regarding the delivery of services in 2016-17. The Integrated Joint Board is in the process of developing Financial Regulations and establishing an Audit Committee and reports will continue to be presented to Midlothian Council and the Midlothian Audit Committee on the financial assurance process being undertaken by Management and the reviews of the financial assurance process by the Internal Audit Section of Midlothian Council.

- Safer Communities Board provides the local scrutiny and accountability for Police and Fire & Rescue services in Midlothian as well as the wider strategic role from the Police and Fire Reform (Scotland) Act 2012.

Training workshops have been held during the year with Safer Communities Board and partnership representatives from across the Community Safety and Community Planning partnership who attended on the separate topics of Scrutiny and Challenge, another on reducing reoffending issues and the proposal that the remit of the Community Safety Partnership be adapted to incorporate the new Midlothian Reducing Reoffending Partnership, and a workshop discussion covered Midlothian Policing issues, including a proposed new structure for Policing in Midlothian.

There will be a continuation of training opportunities already provided to the members of the Safer Communities Board, including those participants in the agenda for safeguarding in Midlothian.

Those actions which are underway but which have not yet been fully concluded (ie the Business Transformation Programme; Welfare Reform; Health and Social Care Integration; and Risk Management) will continue to be progressed in 2015/16.

The following areas of improvement have also been identified and are to be progressed in 2015 -16:

- updating the Code of Corporate Governance to allow full compliance with the new International Framework of Good Governance in the Public Sector;
- updating the Council's approach to fraud and corruption to allow full compliance against the new CIPFA code of practice on Managing the Risk of Fraud and Corruption;

## **Annual Governance Statement**

- to adopt the recommendations made by Internal Audit on the areas where weaknesses in control have been identified during the year (including Transformation, and Petty Cash); and
- to review any implications of the operation of the Data Protection Act within the Council and to monitor on-going compliance.

The Council has been dealing since September 2013 with a major incident involving gas penetration of carbon monoxide into recently built Council housing stock at Newbyres Crescent, Gorebridge. The Council has worked with various partner bodies in both the public and private sectors throughout this period.

The following actions have been taken or are ongoing to protect the Council's position. In order to protect public health, the tenants of all properties in the development have been decanted and provided with suitable alternative accommodation.

Following advice from geotechnical engineers, the Council has agreed to demolish and rebuild the properties incorporating appropriate gas protection measures. This action is ongoing.

The Council has instructed a joint report from technical consultants, Fairhursts, and legal advisers, Shepherd and Wedderburn, into potential legal liability emanating from the contractual arrangements and common law duties. The Council is now acting on the basis of their recommendations.

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

**Signed:**

**Catherine Johnstone, Leader of the Council**

**Kenneth Lawrie, Chief Executive**

**29 September 2015**

## 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 reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance. The net increase / decrease before transfers to statutory reserves line shows the statutory General Fund Balance before any discretionary transfers to or from statutory reserves held by the Council.

		General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Repairs & Renewals Fund £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
<b>2013/14 – Previous Year</b>								
<b>Comparative</b>	Note							
<b>Opening Balances at 1 April 2013</b>		<b>(14,083)</b>	<b>(14,673)</b>	<b>(7,531)</b>	<b>(2,275)</b>	<b>(38,562)</b>	<b>(353,242)</b>	<b>(391,804)</b>
<b>Movement in Reserves 2013/14</b>								
(Surplus) or deficit on provision of services	CIES	16,162	79,205	0	0	95,367	0	95,367
Other Comprehensive Expenditure and Income	CIES	0	0	0	0	0	(14,893)	(14,893)
<b>Total Comprehensive Expenditure and Income</b>		<b>16,162</b>	<b>79,205</b>	<b>0</b>	<b>0</b>	<b>95,367</b>	<b>(14,893)</b>	<b>80,474</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	5	<b>(22,868)</b>	<b>(82,906)</b>	<b>(3,127)</b>	<b>0</b>	<b>(108,901)</b>	<b>108,901</b>	<b>0</b>
<b>Net (increase) / decrease before transfers to / from Other Statutory Reserves</b>		<b>(6,706)</b>	<b>(3,701)</b>	<b>(3,127)</b>	<b>0</b>	<b>(13,534)</b>	<b>94,008</b>	<b>80,474</b>
Transfers (to) / from Other Statutory Reserves		278	0	0	(278)	0	0	0
<b>(Increase) / Decrease in 2013/14</b>		<b>(6,428)</b>	<b>(3,701)</b>	<b>(3,127)</b>	<b>(278)</b>	<b>(13,534)</b>	<b>94,008</b>	<b>80,474</b>
<b>Balance at 31 March 2014 carried forward</b>		<b>(20,511)</b>	<b>(18,374)</b>	<b>(10,658)</b>	<b>(2,553)</b>	<b>(52,096)</b>	<b>(259,236)</b>	<b>(311,332)</b>
<b>2014/15 – Current Financial Year</b>								
<b>Opening Balances at 1 April 2014</b>		<b>(20,511)</b>	<b>(18,374)</b>	<b>(10,658)</b>	<b>(2,553)</b>	<b>(52,096)</b>	<b>(259,236)</b>	<b>(311,332)</b>
<b>Movement in Reserves 2014/15</b>								
(Surplus) or deficit on provision of services	CIES	17,816	37,694	0	0	55,510	0	55,510
Other Comprehensive Expenditure and Income	CIES	0	0	0	0	0	14,300	14,300
<b>Total Comprehensive Expenditure and Income</b>		<b>17,816</b>	<b>37,694</b>	<b>0</b>	<b>0</b>	<b>55,510</b>	<b>14,300</b>	<b>69,810</b>
<b>Adjustments between accounting basis &amp; funding basis under regulations</b>	5	<b>(19,140)</b>	<b>(40,696)</b>	<b>(4,195)</b>	<b>0</b>	<b>(64,031)</b>	<b>64,031</b>	<b>0</b>
<b>Net (increase) / decrease before transfers to / from Other Statutory Reserves</b>		<b>(1,324)</b>	<b>(3,002)</b>	<b>(4,195)</b>	<b>0</b>	<b>(8,521)</b>	<b>78,331</b>	<b>69,810</b>
Transfers (to) / from Other Statutory Reserves		520	0	0	(520)	0	0	0
<b>(Increase) / Decrease in 2014/15</b>		<b>(804)</b>	<b>(3,002)</b>	<b>(4,195)</b>	<b>(520)</b>	<b>(8,521)</b>	<b>78,331</b>	<b>69,810</b>
<b>Balance at 31 March 2015 carried forward</b>		<b>(21,315)</b>	<b>(21,376)</b>	<b>(14,853)</b>	<b>(3,073)</b>	<b>(60,617)</b>	<b>(180,905)</b>	<b>(241,522)</b>

# Comprehensive Income and Expenditure Statement

## For the year ended 31 March 2015

This statement shows the accounting cost in the year providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from Government Grant Non-Domestic Rates and Council Tax. The position funded by Government Grant, Council Tax and Non Domestic Rates is shown in the Movement in Reserves Statement.

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of BVACOP. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the council’s status as a multi-functional, democratic organisation;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in BVACOP and accounted for as separate headings in the CIES, as part of Net Expenditure on Continuing Services.

2013/14 Gross Expenditure £000	2013/14 Gross Income £000	2013/14 Net Expenditure £000		Notes	2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000
			<b>Continuing Operations</b>				
95,162	2,905	92,257	Education Services		91,254	3,061	88,193
60,446	13,604	46,842	Social Work		65,272	13,557	51,715
14,614	4,784	9,830	Culture and Related Services		16,430	4,971	11,459
9,808	409	9,399	Roads and Transport Services		7,397	265	7,132
(71)	0	(71)	Police Services		0	0	0
9,188	1,512	7,676	Environmental Services		8,720	1,538	7,182
			Planning and Development				
5,556	2,267	3,289	Services		8,427	4,288	4,139
96,762	22,310	74,452	Housing Revenue Account		53,825	23,098	30,727
40,989	31,787	9,202	Other Housing Services		40,488	30,904	9,584
3,782	103	3,679	Corporate & Democratic Core		3,376	90	3,286
(638)	906	(1,544)	Central Services to the Public		688	949	(261)
3,934	0	3,934	Non-distributable Costs	6	6,498	0	6,498
<b>339,532</b>	<b>80,587</b>	<b>258,945</b>	<b>Deficit on Continuing Operations</b>		<b>302,375</b>	<b>82,721</b>	<b>219,654</b>
		3,670	Other Operating Expenditure	7			6,826
		15,906	Financing and Investment Income and Expenditure	8			16,120
		(183,154)	Taxation and Non-Specific Grant Income	9			(187,090)
		<b>95,367</b>	<b>(Surplus) or Deficit on Provision of Services</b>				<b>55,510</b>
		(21,633)	(Surplus) or Deficit on revaluation of non current assets				(11,584)
		10,441	Remeasurement of the net defined benefit liability	36			29,203
		(3,701)	Other (Gains) / Losses				(3,319)
		<b>(14,893)</b>	<b>Other Comprehensive (Income) and Expenditure</b>				<b>14,300</b>
		<b>80,473</b>	<b>Total Comprehensive (Income) and Expenditure</b>				<b>69,810</b>



# Balance Sheet

As at 31 March 2015

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets are matched by reserves which are reported in two categories. The first is Usable Reserves which are available to the Council to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Council is not able to use to provide services. This includes reserves that contain unrealised gains and losses where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

<b>31<sup>st</sup> March 2014 £000</b>		<b>Notes</b>	<b>31<sup>st</sup> March 2015 £000</b>
648,713	Property, Plant and Equipment	10	611,295
220	Intangible Assets	11	1,187
30	Heritage Assets	13	26
4,456	Long Term Investments	15	3,382
4,653	Long Term Debtors	16	3,073
<b>658,072</b>	<b>Long Term Assets</b>		<b>618,963</b>
0	Short Term Investments	14	40,152
5,770	Assets held for Sale	12	800
1,182	Inventories		987
17,376	Short Term Debtors	16	20,658
36,520	Cash and Cash Equivalents	17	14,337
<b>60,848</b>	<b>Current Assets</b>		<b>76,934</b>
40,781	Short Term Borrowing	14	44,237
27,834	Short Term Creditors	18	25,468
1,129	Provisions	19	1,750
12,153	Grants Receipts in Advance	30	18,049
<b>81,897</b>	<b>Current Liabilities</b>		<b>89,504</b>
187,969	Long Term Borrowing	14	193,143
137,722	Other Long Term Liabilities	20	171,728
<b>325,691</b>	<b>Long Term Liabilities</b>		<b>364,871</b>
<b>311,332</b>	<b>Net Assets</b>		<b>241,522</b>
52,096	Usable Reserves	5&21	60,617
259,236	Unusable Reserves	22	180,905
<b>311,332</b>	<b>Total Reserves</b>		<b>241,522</b>

Signed:

**Gary Fairley**  
**Head of Finance and Integrated Service Support**  
**29 September 2015**

## Cash Flow Statement

### For the year ended 31 March 2015

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.

<b>2013/14</b>		<b>Notes</b>	<b>2014/15</b>
<b>£000</b>	<b>Revenue Activities</b>		<b>£000</b>
<b>(95,367)</b>	<b>Net surplus or (deficit) on the provision of services</b>		<b>(55,510)</b>
130,539	Adjustment to surplus or deficit on the provision of services for non cash movements	23	82,936
(16,840)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	(15,480)
<b>18,332</b>	<b>Net Cash Flows From Operating Activities</b>		<b>11,947</b>
14,648	Net cash flows from investing activities	24	(41,802)
(5,067)	Net cash flows from financing activities	25	7,672
<b>27,913</b>	<b>Net Increase or Decrease in Cash and Cash Equivalents</b>		<b>(22,183)</b>
8,607	Cash and cash equivalents at the beginning of the reporting period		36,520
<b>36,520</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>14,337</b>

# Remuneration Report

The Remuneration Report provides details of the Council's remuneration policy for its senior employees and senior councillors and states how 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 2014/15;
- 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 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 Grant Thornton 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 2014/15 the salaries of the Directors were 87% of the Chief Executive's salary.

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

- a) Teaching Staff – The Scottish Negotiating Committee for Teachers (SNCT);
- b) Other staff – Scottish Joint Negotiating Committee for Local Authority Services (SJNC).

## Councillors Remuneration Policy

The remuneration of councillors is regulated by the Local Government (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No 2007/183). 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.

When determining the level of remuneration for councillors the Scottish Ministers consider the recommendations of the Scottish Local Authority Remuneration Committee, an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by the local authority councillors.

The salary that is to be paid to the Leader of the Council is set out in the regulations and for 2014/15 this was £27,602. 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 2014/15 was £20,702.

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 £146,112. The Council is also able to exercise local flexibility in the determination of the precise number of senior councillors and salary within these maximum limits. The Council policy is to divide this sum equally and pay each of the 6 senior councillors a salary of £20,656.

The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI No. 2011/64) require local authorities in Scotland to prepare a Remuneration Report as part of the Financial Statements. This report provides details of the Council's remuneration policy for senior employees and senior councillors.

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

## Remuneration Report

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 final salary pension scheme which means that pension benefits are based on the final year's pay and the number of years that a person has been a member of the scheme. The scheme's normal retirement age for employees is 65.

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

The tiers and employees contributions rates for 2014/15 remain at the 2013/14 rates, and are as follows:

On earnings up to and including £18,000 (5.5%), on earnings above £18,000 and up to £22,000 (7.25%), on earnings above £22,000 and up to £30,000 (8.5%), on earnings above £30,000 and up to £40,000 (9.5%) and on earnings above £40,000 (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 retiral. 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 1/60<sup>th</sup> of final pensionable salary and years of pensionable service. Prior to 2009, the accrual rate guaranteed a pension based on 1/80<sup>th</sup> 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:

Non-Teaching Employees	Teaching Employees	Total Employees	Remuneration Band	Non-Teaching Employees	Teaching Employees	Total Employees
2013/14	2013/14	2013/14		2014/15	2014/15	2014/15
27	25	52	£50,000 - £54,999	23	30	53
14	5	19	£55,000 - £59,999	11	5	16
7	3	11	£60,000 - £64,999	5	3	8
1	2	3	£65,000 - £69,999	2	2	4
7	1	8	£70,000 - £74,999	2	1	3
0	0	0	£75,000 - £79,999	4	1	5
0	1	1	£80,000 - £84,999	0	1	1
1	0	1	£85,000 - £89,999	0	0	0
0	0	0	£90,000 - £94,999	0	0	0
2	0	2	£95,000 - £99,999	3	0	3
0	0	0	£100,000 - £104,999	0	0	0
0	0	0	£105,000 - £109,999	0	0	0
1	0	1	£110,000 - £114,999	0	0	0
0	0	0	£115,000 - £119,999	1	0	1
<b>61</b>	<b>37</b>	<b>98</b>	<b>TOTAL</b>	<b>51</b>	<b>43</b>	<b>94</b>

# Remuneration Report

## 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 employees voluntary redundancy packages for the year are as follows:

Number of Employees 2013/14	Total Cost £000 2013/14	Package Band	Number of Employees 2014/15	Total Cost £000 2014/15
39	389	£0 - £19,999	61	794
18	514	£20,000 - £39,999	102	2,929
2	86	£40,000 - £59,999	23	1,073
-	-	£60,000 - £79,999	12	834
-	-	£80,000 +	2	177
<b>59</b>	<b>989</b>	<b>TOTAL</b>	<b>200</b>	<b>5,807</b>

## Remuneration paid to Senior Employees

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

### 31 March 2014

Total Remuneration	Name and Post Title	Salary, Fees & Allowances	Non Cash Benefits	Compensation for loss of employment	Total Remuneration
£110,116	K Lawrie, Chief Executive	£111,461	-	-	£111,461
-	K Lawrie, Returning Officer	£4,889	-	-	£4,889
£56,562	C Anderson, Executive Officer Transformation (1)	£28,191	-	£18,374	£46,565
£96,208	J Blair, Director Resources	£92,851	£4,277	-	£97,128
£95,940	E McHugh, Joint Director Health & Social Care (2)	£48,449	-	-	£48,449
£63,960	M Smith, Director Education, Communities and Economy	£96,899	-	-	£96,899
£74,317	G Fairley, Head of Finance & ISS	£71,720	£3,586	-	£75,306
£74,522	H Kelly, Head of Customer Services (3)	£63,075	-	£54,979	£118,054
-	A Turpie, Legal Services Manager (4)	£25,875	-	-	£25,875
<b>£571,625</b>	<b>Total</b>	<b>£543,410</b>	<b>£7,863</b>	<b>£73,353</b>	<b>£624,626</b>

# Remuneration Report

## Pension Entitlement of Senior Employees

For year to 31 March 2014	In-year employers pension contributions Name and Post Title	For year to 31 March 2015
£22,052	K Lawrie, Chief Executive	£22,274
-	K Lawrie, Returning Officer	£1,022
£19,213	J Blair, Director Resources	£19,406
£19,213	E McHugh, Joint Director Health & Social Care	£19,406
£17,609	M Smith, Director Education, Communities and Economy	£19,406
£14,840	G Fairley, Head of Finance & Integrated Service Support	£14,990
£14,840	H Kelly, Head of Customer Services (3)	£7,495
-	A Turpie, Legal Services Manager (4)	£5,182
<b>£107,767</b>	<b>Total</b>	<b>£109,181</b>

- 1 Part time post working 21.6 hours per week. Full time equivalent salary £91,932. C Anderson left the Council in June 2014.
- 2 Post joint funded with NHS Lothian. Full time equivalent salary £96,899.
- 3 H Kelly left the council in October 2014. Full time equivalent salary £71,720.
- 4 A Turpie took over as Council Monitoring Officer in October 2014. Full time equivalent salary £51,750.

## Accrued Pension Benefits

Name and Post Title	Pension as at 31 March 2015 £000	Lump Sum as at 31 March 2015 £000	Difference from 31 March 2014	
			Pension £000	Lump Sum £000
K Lawrie, Chief Executive	31	61	3	4
J Blair, Director Corporate Resources	39	89	2	1
E McHugh, Joint Director Health & Social Care	38	87	2	1
M Smith, Director Education, Communities and Economy	23	42	3	4
G Fairley, Head of Finance & ISS	30	69	2	1
H Kelly, Head of Customer Services	18	34	1	0
A Turpie, Legal Services Manager	19	41	-	-
<b>Total</b>	<b>198</b>	<b>423</b>	<b>13</b>	<b>11</b>

All senior employees shown in the tables above are members of the Local Government Pension Scheme. The pension figures shown relate to the benefits accrued as a consequence of total local government service, not solely the current appointment.

## Remuneration of Senior Councillors

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

31 March 2014 Total Remuneration	Name	Salary	Expenses	31 March 2015 Total Remuneration
£23,447	O Thompson, Leader	£27,602	£247	£27,849
£25,080	B Constable, Depute Leader	£20,656	£288	£20,944
£22,554	J Wallace, Provost	£20,702	£1,582	£22,284
£17,320	A Coventry, Depute Provost	£20,679	£314	£20,993
£20,712	J Bryant, Senior Councillor	£20,656	£695	£21,351
£20,453	D Rosie, Senior Councillor	£20,656	£521	£21,177
£20,952	C Johnstone, Senior Councillor	£20,656	£333	£20,989
£20,981	D Milligan, Opposition Leader	£20,656	£500	£21,156
<b>£171,499</b>	<b>Total</b>	<b>£172,263</b>	<b>£4,480</b>	<b>£176,743</b>

## Remuneration Report

The Council paid £0.335 million (2013/14 £0.333 million) salaries to Councillors and expenses of £0.007 million (2013/14 £0.012 million). The annual return of Councillor's salaries and expenses is available on the Council Website.

### Pension Entitlement of Senior Councillors

For year to 31 March 2014	In-year employers pension contributions Name	For year to 31 March 2015
£5,184	B Constable, Depute Leader	£4,310
£4,283	J Wallace, Provost	£4,320
£4,171	D Rosie, Senior Councillor	£4,310
£4,274	C Johnstone, Senior Councillor	£4,310
£3,553	A Coventry, Depute Provost	£4,310
<b>£21,465</b>	<b>Total</b>	<b>£21,560</b>

### Accrued Pension Benefits as at 31 March 2015

Name and Post Title	Pension as at 31 March 2015	Lump Sum as at 31 March 2015	Difference from 31 March 2014	
	£000	£000	Pension £000	Lump Sum £000
B Constable, Depute Leader	2	1	0	0
J Wallace, Provost	1	0	1	0
D Rosie, Senior Councillor	1	0	1	0
C Johnstone, Senior Councillor	1	0	1	0
A Coventry, Depute Provost	1	0	1	0
<b>Total</b>	<b>6</b>	<b>1</b>	<b>4</b>	<b>0</b>

# Notes to the Financial Statements

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

## 1. Statement of Accounting Policies

### 1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2014-15 financial year and its position as at 31 March 2015. The Council is required to prepare an annual Statement of Accounts in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 also requires the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 (The Code) and the Service Reporting Code of Practice 2014-15 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government in Scotland Act 2003.

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

### Accounting Concepts and Principles

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

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

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

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

Faithful representation has three characteristics:

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

## 1.2 Summary of Significant Accounting Policies

### 1.2.1 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council;
- Revenue from the provision of services is recognised when the council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council;



## Notes to the Financial Statements

- 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.

### 1.2.2 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

### 1.2.3 Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding fixed 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 fixed 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.

# Notes to the Financial Statements

## *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 than 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, unlisted securities at current bid price and property at market value.

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

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked;

## Notes to the Financial Statements

- 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;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the CIES;
- expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the CIES;
- gains or losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs;
- 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 – debited to the Pensions Reserve;
- 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 Balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was

## Notes to the Financial Statements

remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

### *Financial Assets*

Financial assets are classified into two types:

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

### *Loans and Receivables*

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the CIES.

The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

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

### *Available for Sale Assets*

Available-for-sale assets are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the CIES when it becomes receivable by the council.

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

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

## Notes to the Financial Statements

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

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

### 1.2.7 Interests in Companies and Other Entities

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

### 1.2.8 Long Term Contracts

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

### 1.2.9 Property, Plant and Equipment

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

#### *Recognition*

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

#### *Measurement*

Assets are initially measured at cost, comprising:

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

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

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

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

- Council Houses are valued using the Beacon principle based on valuations carried out by the Council's Property Investment Manager. The main valuation basis used in is existing use – social housing. Gross valuations are reduced by applying a discount factor which is designed to reflect that houses are only available for social use. Any new build housing and newly purchased houses are valued at historic cost;

## Notes to the Financial Statements

- Land and operational properties have been valued at the lower of cost and net realisable value in current use, or at depreciated replacement cost;
- 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 fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

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

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

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

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

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

### *Impairment*

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

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

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

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

### *Depreciation*

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

## Notes to the Financial Statements

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant and equipment – straight-line allocation over the useful life of the assets in 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 required to be credited to the Capital Fund via the Capital Receipts Reserve, 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.

## Notes to the Financial Statements

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

### 1.2.10 VAT

Income and Expenditure excludes any amount relating to Value Added Tax (VAT), as all VAT is payable to H.M. Revenue & Customs and all VAT 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 2015/16 Code:

IFRS 13 Fair Value Measurement, Annual Improvements to IFRSs 2011-2013 Cycle and IFRIC 21 Levies

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2014/15 financial statements.

IFRS 13 relates to Fair Value Measurement with changes to increase consistency and comparability in fair value measurements and related disclosures.

The issues included in the Annual Improvements to the 2011-2013 cycle are:

- IFRS 1: Meaning of effective IFRSs;
- IFRS 3: Scope exceptions for joint ventures
- IFRS 13: Scope of paragraph 52 (portfolio exception); and
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Properties

IFRIC 21 provides guidance on when to recognise a liability for a levy imposed by a government.

Overall these new or amended standards are not expected to have a significant impact on the annual accounts.

## **3. Critical Judgements in Applying Accounting Policies**

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

- There is a high degree of uncertainty about future levels of funding for Local Government, however, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close the facilities and to reduce levels of service provision.
- The Council's only subsidiaries and associates are the Lothian Valuation Joint Board and Pacific Shelf 826 Limited. Due to the small value of transactions for Pacific Shelf 826 Ltd and the relatively small share of net assets of Lothian Valuation Joint Board it was considered unnecessary to provide a full set of group accounts

## **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 2015 for which there is significant risk of material adjustment in the forthcoming year are as follows:



# Notes to the Financial Statements

## 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 £18.751 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 2015		
0.5% decrease in Real Discount Rate	10%	50,458
1 year increase in member life expectancy	3%	14,810
0.5% increase in the Salary Increase Rate	4%	18,296
0.5% increase in the Pension Increase Rate	6%	30,865

# Notes to the Financial Statements

## 5. Adjustments between Accounting Basis and Funding Basis Under Regulations

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

During the preparation of the 2014/15 final accounts there has been a change in our presentation of capital accounting. As such the prior year comparative figures are not necessarily in the same format as the current year.

	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Usable Capital Receipts Reserve £000	Total Useable Reserves £000	Movement in Unusable Reserves £000
<b>2013/14</b>						
<b>Adjustments Primarily involving the Capital Adjustment Account</b>						
<b>Reversal of items debited or credited to the CIES</b>						
Charges for depreciation of non-current assets	(25,980)	(86,364)	0	0	(112,344)	112,344
Charges for impairment of non-current assets						
Amortisation of intangible assets	(190)	0	0	0	(190)	190
Revaluation losses on PPE and assets held for sale						
Amount of non-current assets written off on disposal or sale as part of gain/loss on disposal to the CIES						
Net gain or loss on sale of non-current assets	(4,069)	399	0	0	(3,670)	3,670
Capital grants and contributions applied						
Revenue expenditure funded from capital under statute						
Statutory Provision for the financing of capital investment	2,845	2,389	2,500	0	7,734	(7,734)
Capital expenditure charged against the General Fund						
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>						
Application of grants to capital financing transferred to the CAA	8,519	1,125	0	0	9,644	(9,644)
<b>Adjustments primarily involving the Capital Fund</b>						
Disposal of Fixed Assets / Capital Sales	0	0	0	(7,196)	(7,196)	7,196
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	(5,627)	5,627	0	0
Capital Receipts used to Finance Capital Expenditure	0	0	0	1,568	1,568	(1,568)
<b>Adjustments involving the Financial Instruments Adjustment Account</b>						
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	7	0	0	0	7	(7)
<b>Adjustments primarily involving the pensions reserve</b>						
Reversal of items relating to retirement benefits debited or credited to the CIES	(13,183)	(1,996)	0	0	(15,179)	15,179
Employers Pension contributions and direct payments to pensioners payable in the year	9,526	1,545	0	0	11,071	(11,071)
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>						
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	(347)	0	0	0	(347)	347
<b>Total Adjustments</b>	<b>(22,868)</b>	<b>(82,906)</b>	<b>(3,127)</b>	<b>0</b>	<b>(108,901)</b>	<b>108,901</b>

## Notes to the Financial Statements

	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Usable Capital Receipts Reserve £000	Total Useable Reserves £000	Movement in Unusable Reserves £000
<b>2014/15</b>						
<b>Adjustments Primarily involving the Capital Adjustment Account</b>						
<b>Reversal of items debited or credited to the CIES</b>						
Charges for depreciation of non-current assets	(21,723)	(12,406)	0	0	(34,129)	34,129
Charges for impairment of non-current assets	0	0	0	0	0	0
Amortisation of intangible assets	(115)	0	0	0	(115)	115
Revaluation losses on PPE and assets held for sale	(3,037)	(31,112)	0	0	(34,149)	34,149
Amount of non-current assets written off on disposal or sale as part of gain/loss on disposal to the CIES	0	0	0	0	0	0
Net gain or loss on sale of non-current assets	(7,335)	508	0	0	(6,827)	6,827
Capital grants and contributions applied	0	0	0	0	0	0
Revenue expenditure funded from capital under statute	0	0	0	0	0	0
Statutory Provision for the financing of capital investment	5,234	2,868	0	0	8,102	(8,102)
Capital expenditure charged against the General Fund	0	0	0	0	0	0
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>						
Application of grants to capital financing transferred to the CAA	13,460	0	0	0	13,460	(13,460)
<b>Adjustments primarily involving the Capital Fund</b>						
Disposal of Fixed Assets / Capital Sales	0	0	0	(4,195)	(4,195)	4,195
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	(4,195)	4,195	0	0
Capital Receipts used to Finance Capital Expenditure	0	0	0	0	0	0
<b>Adjustments involving the Financial Instruments Adjustment Account</b>						
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	7	0	0	0	7	(7)
<b>Adjustments primarily involving the pensions reserve</b>						
Reversal of items relating to retirement benefits debited or credited to the CIES	(17,265)	(554)	0	0	(17,819)	17,819
Employers Pension contributions and direct payments to pensioners payable in the year	11,894	0	0	0	11,894	(11,894)
<b>Adjustments primarily involving the Employee Statutory Adjustment Account</b>						
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	(260)	0	0	0	(260)	260
<b>Total Adjustments</b>	<b>(19,140)</b>	<b>(40,696)</b>	<b>(4,195)</b>	<b>0</b>	<b>(64,031)</b>	<b>64,031</b>

## Notes to the Financial Statements

### 6. Non-Distributable Costs

2013/14		2014/15
£000		£000
3,934	Pension Costs	6,498
<b>3,934</b>	<b>Total Non-distributable Costs</b>	<b>6,498</b>

### 7. Other Operating Income and Expenditure

2013/14		2014/15
£000		£000
3,670	(Surplus)/Deficit on sale of non current assets	6,826
<b>3,670</b>	<b>Total Other Operating Income and Expenditure</b>	<b>6,826</b>

### 8. Financing and Investment Income and Expenditure

2013/14		2014/15
£000		£000
14,029	Interest payable and similar charges	13,630
2,990	Pension interest cost and expected returns on pension assets	3,507
(1,113)	Interest received and similar income	(1,017)
0	Investment Losses	0
<b>15,906</b>	<b>Total</b>	<b>16,120</b>

### 9. Taxation and Specific Grant Income

2013/14		2014/15
£000		£000
33,363	Council Tax Income	34,430
26,596	Non Domestic Rates Income	29,308
123,195	Non-Specific Government Grants	123,352
<b>183,154</b>	<b>Total Taxation and Non-Specific Grant Income</b>	<b>187,090</b>

## Notes to the Financial Statements

### 10. Movement in Non-Current Assets, Property, Plant and Equipment

During the preparation of the 2014/15 final accounts there has been a change in our presentation of capital accounting. As such the prior year comparative figures are not necessarily in the same format as the current year.

	Houses £000	Land £000	Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Under Construction £000	Surplus Assets £000	Total £000
<b>Gross Book value as at 31 March 2013</b>	<b>389,993</b>	<b>37,433</b>	<b>265,027</b>	<b>21,689</b>	<b>46,518</b>	<b>7,068</b>	<b>65,863</b>	<b>10,458</b>	<b>844,049</b>
Adjustment to opening balance	(336)	3,413	(3,077)	0	0	0	0	0	0
<b>Restated Gross Book value as at 31 March 2013</b>	<b>389,657</b>	<b>40,846</b>	<b>261,950</b>	<b>21,689</b>	<b>46,518</b>	<b>7,068</b>	<b>65,863</b>	<b>10,458</b>	<b>844,049</b>
Additions	14,470	219	9,338	3,562	4,071	0	1,720	8	33,388
Disposals	(1,428)	(3,086)	(1,962)	(1,180)	0	0	0	0	(7,656)
Revaluation increase/ (decrease) to Revaluation Reserve	0	(5,302)	(6,996)	0	0	813	(15)	(580)	(12,080)
Revaluation increase/ (decrease) to CIES	(80,052)	(8,797)	124	(257)	0	2	0	(96)	(89,076)
Reclassifications	33,079	(5,267)	31,203	0	0	0	(64,697)	0	(5,682)
<b>Gross Book value at 31 March 2014</b>	<b>355,726</b>	<b>18,613</b>	<b>293,657</b>	<b>23,814</b>	<b>50,589</b>	<b>7,883</b>	<b>2,871</b>	<b>9,790</b>	<b>762,943</b>
<b>Depreciation as at 31 March 2013</b>	<b>(33,796)</b>	<b>0</b>	<b>(56,210)</b>	<b>(14,403)</b>	<b>(21,920)</b>	<b>(149)</b>	<b>0</b>	<b>0</b>	<b>(126,478)</b>
Adjustment to opening balance	(29)	0	17	0	0	0	0	0	(12)
<b>Restated Depreciation as at 31 March 2013</b>	<b>(33,825)</b>	<b>0</b>	<b>(56,193)</b>	<b>(14,403)</b>	<b>(21,920)</b>	<b>(149)</b>	<b>0</b>	<b>0</b>	<b>(126,490)</b>
Depreciation for the year	(12,587)	0	(11,807)	(2,053)	(3,040)	(51)	0	0	(29,538)
Depreciation/ impairment written out on Revaluation Reserve	0	0	31,442	0	0	0	0	0	31,442
Depreciation/ impairment written out on Revaluations taken to CIES	5,859	0	2,580	157	0	0	0	0	8,596
Write back depreciation on disposals	281	0	210	1,178	0	0	0	0	1,669
Reclassifications	0	0	90	0	0	0	0	0	90
<b>Depreciation as at 31 March 2014</b>	<b>(40,272)</b>	<b>0</b>	<b>(33,678)</b>	<b>(15,121)</b>	<b>(24,960)</b>	<b>(200)</b>	<b>0</b>	<b>0</b>	<b>(114,231)</b>
<b>Net book value as at 31 March 2013</b>	<b>356,197</b>	<b>37,433</b>	<b>208,817</b>	<b>7,286</b>	<b>24,598</b>	<b>6,919</b>	<b>65,863</b>	<b>10,458</b>	<b>717,571</b>
<b>Net book value as at 31 March 2014</b>	<b>315,454</b>	<b>18,613</b>	<b>259,979</b>	<b>8,693</b>	<b>25,629</b>	<b>7,683</b>	<b>2,871</b>	<b>9,790</b>	<b>648,712</b>

## Notes to the Financial Statements

	Houses £000	Buildings £000	Land £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Under Construction £000	Surplus Assets £000	Total £000
<b>Cost or Valuation as at 31 March 2014</b>	<b>355,726</b>	<b>293,657</b>	<b>18,614</b>	<b>23,813</b>	<b>50,589</b>	<b>7,883</b>	<b>2,875</b>	<b>9,790</b>	<b>762,947</b>
Additions	7,276	2,535	108	3,073	4,249	0	5,908	0	23,149
Donations	0	0	0	0	0	0	0	0	0
Disposals	(1,880)	(1,328)	(456)	(1,535)	0	(40)	(299)	0	(5,538)
Reclassification	1,344	78	0	(125)	0	0	(1,297)	(400)	(400)
Impairment Losses	(2,194)	0	0	0	0	0	0	0	(2,194)
Impairment Reversal	0	0	0	0	0	0	0	0	0
Revaluation to I&E	(28,918)	(2,654)	(498)	0	0	(10)	0	0	(32,080)
Revaluation to Revaluation Reserve	(32,803)	(8,865)	(1,211)	0	0	60	0	0	(42,819)
<b>Gross Book value at 31 March 2015</b>	<b>298,551</b>	<b>283,423</b>	<b>16,557</b>	<b>25,226</b>	<b>54,838</b>	<b>7,893</b>	<b>7,187</b>	<b>9,390</b>	<b>703,065</b>
<b>Depreciation as at 31 March 2014</b>	<b>(40,272)</b>	<b>(33,684)</b>	<b>0</b>	<b>(15,121)</b>	<b>(24,959)</b>	<b>(199)</b>	<b>0</b>	<b>2</b>	<b>(114,233)</b>
Depreciation Charge for the Year	(12,311)	(16,031)	0	(2,425)	(3,312)	(51)	0	0	(34,130)
Disposals	369	280	0	1,413	0	0	0	0	2,062
Reclassification	(8)	8	0	0	0	0	0	0	0
Impairment Depreciation	0	0	0	0	0	0	0	0	0
Impairment Reversal	0	0	0	0	0	0	0	0	0
Depreciation Revaluation to I&E	0	0	0	0	0	0	0	0	0
Depreciation Revaluation to Revaluation Reserve	0	0	0	0	0	0	0	0	0
Depreciation	31,990	22,511	0	0	0	29	0	0	54,530
<b>Depreciation as at 31 March 2015</b>	<b>(20,232)</b>	<b>(26,916)</b>	<b>0</b>	<b>(16,133)</b>	<b>(28,271)</b>	<b>(221)</b>	<b>0</b>	<b>2</b>	<b>(91,771)</b>
<b>Net book value as at 31 March 2014</b>	<b>315,454</b>	<b>259,979</b>	<b>18,613</b>	<b>8,693</b>	<b>25,629</b>	<b>7,683</b>	<b>2,871</b>	<b>9,790</b>	<b>648,712</b>
<b>Net book value as at 31 March 2015</b>	<b>278,319</b>	<b>256,507</b>	<b>16,557</b>	<b>9,093</b>	<b>26,567</b>	<b>7,672</b>	<b>7,187</b>	<b>9,392</b>	<b>611,294</b>

The Council carries out a rolling programme which ensures that the Property, Plant and Equipment required to be measured at fair 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.

During 2014-15, the Council reduced its estimate of the carrying value of components relating to the housing estate in light of the findings from the full valuation of the housing estate carried out on 31 March 2015. The components comprise significant additions that are depreciated over a shorter lifespan than the remaining property, and include the kitchens and bathrooms replaced under the Scottish Housing Quality Standard programme.

Under IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, the Council has revised the estimate of the gross book value of these components within Houses from £49.1 million to £28.9 million.

# Notes to the Financial Statements

## 11. 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 (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

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

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

Software licences are held for a number of systems operated by the Council which cost £1.116 million (2013/14 £0.977 million). This cost is being written off over 3 or 5 years depending on the life of the licence. A total of £0.872 million has been written off (2013/14 £0.757 million).

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. The scheme is currently in the initial year of the second phase. The Council is required to purchase allowances either prospectively or retrospectively, and surrender them on the basis of emissions. The Council currently holds £0.943 million of allowance as intangible assets, all of which were purchased as additions during the year.

2013/14		2014/15
£000		£000
<b>917</b>	<b>Gross carrying amount at start of year</b>	<b>977</b>
(567)	Accumulated amortisation	(757)
<b>350</b>	<b>Net carrying amount at the start of year</b>	<b>220</b>
60	Additions – purchased	1,082
(190)	Amortisation	(115)
<b>220</b>	<b>Net Book Value at Year End</b>	<b>1,187</b>

## 12. Movement in Assets Held for Sale

2013/14		2014/15
£000		£000
<b>5,100</b>	<b>Balance Outstanding as at 1 April</b>	<b>5,770</b>
5,682	Transfers from Non Current Assets during the year	400
0	Revaluations and Restatements	0
(132)	Impairments	0
0	Assets declassified as held for sale	0
(4,880)	Asset Disposal - Other	(5,370)
<b>5,770</b>	<b>Balance Outstanding as at 31 March</b>	<b>800</b>

## 13. Heritage Assets

The Council's chain of office is the main heritage asset and has been included in the Balance Sheet at reinstatement cost, obtained from the Council's insurer. Heritage assets are valued at £0.026 million (2013/14 £0.030 million).

# Notes to the Financial Statements

## 14. Financial Instruments

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

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

### Financial Instrument Balances

31 March 2014			31 March 2015	
Long Term	Current		Long Term	Current
£000	£000		£000	£000
		<b>Financial Liabilities</b>		
187,969	40,781	External Borrowings at amortised cost	193,143	44,237
57,300	1,040	PPP Liability (see Note 35)	56,179	1,121
0	11,790	Creditors	0	8,062
<b>245,269</b>	<b>53,611</b>	<b>Total Financial Liabilities</b>	<b>249,323</b>	<b>53,420</b>
		<b>Financial Assets</b>		
0	0	Loans and Receivables	0	40,152
4,457	0	Available-for-sale Financial Assets	3,032	0
0	36,520	Cash and Cash Equivalents (see Note 17)	0	14,337
2,100	6,179	Debtors (see Note 16)	0	6,825
<b>6,557</b>	<b>42,699</b>	<b>Total Financial Assets</b>	<b>3,032</b>	<b>61,314</b>

Long Term borrowing as shown in the Balance Sheet of £193.143 million fully comprises principal to be repaid later than 12 months (PWLB Maturity Loans of £172.175 million, PWLB Annuity Loans of £0.768 million, LOBO Loans of £20.000 million and Salix Loans of £0.200 million). Lender Option Borrower Options (LOBO's) of £20m have been included in long term borrowing, 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 £44.237 million comprises accrued interest of £2.045 million, the LOBO Effective Interest Rate adjustment of £0.629 million and principal to be repaid within 12 months of £41.563 million (£36.500 million Temporary Loans; £5.000 million PWLB Maturities; £0.036 million Salix Loan, £0.027m PWLB Annuities).

### Gains and Losses on Financial Instruments

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

### Total Interest Income/Expense

Total interest income and total interest expense (calculated using the effective interest method) for financial assets and liabilities that are not at fair value through profit or loss for 2014/15 was £7.672 million (equating to £8.071m interest paid on external borrowings less £0.399m 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 2014/15 was £0.084m.



## Notes to the Financial Statements

### Fair Value of Assets and Liabilities Carried at Amortised Cost

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

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. It is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

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

The rates quoted in this valuation were obtained by Capita, the Council's treasury management consultants, from the market on 31 March 2015.

The calculations are made with the following assumptions:

- For PWLB debt, the discount rate used is the rate for new borrowing as per rate sheet number 126/15 issued by PWLB on 31 March 2015;
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender;
- Interpolation techniques have been used between available rates where the exact maturity period was not available;
- No early repayment or impairment is recognised;
- 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.

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

31 March 2014			31 March 2015				
Carrying Amount	Fair Value	Liability	Principal Outstanding	Add LOBO Accounting Adjustment	Add Accrued Interest	Carrying Amount	Fair Value
£000	£000		£000	£000	£000	£000	£000
189,837	192,238	PWLB	177,970	0	1,759	179,729	211,817
20,903	20,652	LOBO	20,000	629	274	20,903	26,169
18,010	18,011	Short Term Borrowing	36,500	0	12	36,512	36,514
0	0	Salix	236	0	0	236	207
<b>228,750</b>	<b>230,901</b>	<b>Total</b>	<b>234,706</b>	<b>629</b>	<b>2,045</b>	<b>237,380</b>	<b>247,707</b>

## Notes to the Financial Statements

Fair values of assets are calculated as:

31 March 2014			31 March 2015			
Carrying Amount	Fair Value	Investments	Principal Advanced	Add Accrued Interest	Carrying Amount	Fair Value
£000	£000		£000	£000	£000	£000
36,520	36,520	Cash and Cash Equivalents	14,314	23	14,337	14,337
0	0	Short Term Investments	40,000	152	40,152	40,223
<b>36,520</b>	<b>36,520</b>	<b>Total</b>	<b>54,314</b>	<b>175</b>	<b>54,489</b>	<b>54,560</b>

### Nature and extent of risks arising from Financial Instruments

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

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

### Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council also has a policy of limiting deposits to £15 million per institution, other than for UK Nationalised and Part Nationalised institutions where this maximum is extended to £30 million.

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

	Amounts at 31 March 2015 £000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2015 %	Estimated maximum exposure to default and non collectable amounts £000
Cash & Cash Equivalents & Short Term Investments	54,489	0	0	0

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

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

### Age Analysis

31 March 2014		31 March 2015	
£000		£000	
39,131	Less than 3 months	14,337	
0	3 to 6 months	0	
0	6 months to 1 year	40,152	
0	More than 1 year	0	
<b>39,131</b>	<b>Total</b>	<b>54,489</b>	

## Notes to the Financial Statements

### Liquidity Risk

The Council has access to a facility to borrow from the PWLB. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments.

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.

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

### Age Analysis

<b>31 March 2014</b>		<b>31 March 2015</b>
<b>£000s</b>		<b>£000's</b>
38,024	Less than 1 year	41,526
5,026	1 to 2 years	2,029
22,094	2 to 5 years	28,502
18,318	5 to 10 years	10,801
42,897	10 to 20 years	52,214
14,100	20 to 30 years	4,100
50,700	30 to 40 years	60,700
29,834	40 to 50 years	29,834
5,000	Greater than 50 years	5,000
<b>225,993</b>	<b>Total</b>	<b>234,706</b>

### 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 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 held 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 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 risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally over time move with prevailing interest rates or the council's cost of borrowing and provide compensation for a higher proportion of any higher costs.

## Notes to the Financial Statements

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 2015, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

### Interest Rate Risk

	<b>£000</b>
Increase in interest payable on variable rate borrowings	262
Increase in interest receivable on variable rate instruments	(465)
Increase in government grant receivable for financing costs	0
<b>Impact on CIES</b>	<b>(203)</b>
<b>Share of overall impact credited to the HRA</b>	<b>(120)</b>

The impact of a 1% fall in interest rates has not been calculated due to base rate currently sitting at 0.5% and the full value of the council's short-term investment portfolio receiving interest of less than or equal to 1%.

### Price Risk

The Council has a 5.5% shareholding in Lothian Buses which is available for sale to other company shareholders. There is no price risk associated with this.

### 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.

## Notes to the Financial Statements

### 15. Long Term Investments

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 this resulted in a decrease in the value of the investment from £4.457 million in 2013/14 accounts to £3.382 million in 2014/15.

The most recent published results of the company are as follows:

<b>Year to 31 December 2013 £000</b>		<b>Year to 31 December 2014 £000</b>
132,263	Turnover	140,441
11,653	Profit before taxation	9,579
(3,072)	Taxation	(1,783)
8,581	Profit after taxation	7,796
3,296	Ordinary dividend	5,494
27,400	Transfer to / (from) reserves	(19,653)
<b>81,478</b>	<b>Net assets at end of year</b>	<b>61,825</b>

A copy of the latest accounts can be obtained by writing to: Lothian Buses plc, Annandale Street, Edinburgh EH7 4AZ.

### 16. Debtors

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

#### Short Term Debtors

<b>2013/14 £000</b>	<b>2013/14 £000</b>		<b>2014/15 £000</b>	<b>2014/15 £000</b>
27,129		Council Tax and Community Charge	28,128	
(24,817)		Less: bad debt provision	(25,608)	
	2,312			2,520
	2,224	Central Government Bodies		2,279
	9	Other Local Authorities		323
	(8)	Public Corporations and Trading Funds		34
	0	NHS Bodies		0
18,210		Grants, External Debtor accounts and other Income due	21,821	
(5,371)		Less: bad debt provision	(6,319)	
	12,839			15,502
	<b>17,376</b>	<b>Net Debtors</b>		<b>20,658</b>

#### Long Term Debtors

<b>2013/14 £000</b>		<b>2014/15 £000</b>
2,553	Prepayment to PPP Contractor	3,073
2,100	Mauricewood Capital Receipt	-
<b>4,653</b>	<b>Total Long Term Debtors</b>	<b>3,073</b>

## Notes to the Financial Statements

### 17. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are 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:

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
59	Cash and Bank Balances	58
	Short Term Deposits Considered to be Cash	
39,131	Equivalents	15,914
(2,670)	Bank Overdraft	(1,635)
<b>36,520</b>	<b>Total Cash and Cash Equivalents</b>	<b>14,337</b>

### 18. Creditors

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

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
5,153	Payroll Costs Due	5,057
4,948	Accumulated Absences	5,208
2,544	Central Government Bodies	610
87	Other Local Authorities	571
27	Public Corporations and Trading Funds	4
1,270	NDR/Council Tax	(942)
13,805	Other Entities and Individuals	14,959
<b>27,834</b>	<b>Total Creditors</b>	<b>25,467</b>

### 19. 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.

#### *Insurance*

A provision for potential uninsured losses arising from claims is also made and this amounted to £1.222 million at 31 March 2015 (2013/14 £0.999 million) and is shown in other provisions.

#### *Voluntary Severance*

The Council has in place a voluntary severance scheme. In 2014/15 a provision of £0.528 million has been made for employees who have agreed a departure date as at 31 March 2015.

## Notes to the Financial Statements

### 20. Other Long Term Liabilities

2013/14		2014/15
£000		£000
80,421	Net Pension Liabilities	115,549
57,301	PPP Liabilities	56,179
<b>137,722</b>	<b>Total Long Term Liabilities</b>	<b>171,728</b>

### 21. Usable Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

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

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

Movement in the Council's usable reserves are detailed in the Movement in Reserves Statement and in note 5.

31 <sup>st</sup> March		31 <sup>st</sup> March
2014		2015
£000		£000
(20,511)	General Fund Reserve	(21,315)
(18,374)	HRA Balance	(21,376)
(10,658)	Capital Fund	(14,853)
(2,553)	Repairs and Renewals Fund	(3,073)
<b>(52,096)</b>	<b>Total Usable Reserves</b>	<b>(60,617)</b>

### 22. Unusable Reserves

31 <sup>st</sup> March		31 <sup>st</sup> March
2014		2015
£000		£000
(252,514)	24.1 Capital Adjustment Account	(212,240)
(91,066)	24.2 Revaluation Reserve	(89,266)
80,421	24.3 Pension Reserve	115,549
4,948	24.4 Employee Statutory Adjustment Account	5,208
3,082	24.5 Financial Instruments Adjustment Account	2,876
(4,107)	24.6 Available for Sale Financial Instruments Reserve	(3,032)
<b>(259,236)</b>	<b>Total Unusable Reserves</b>	<b>(180,905)</b>

## Notes to the Financial Statements

### 22.1 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.

Note 5 provides further details of transactions posted to the Account.

2013/14 £000		2014/15 £000
<b>(348,874)</b>	<b>Restated Balance at 1<sup>st</sup> April</b>	<b>(257,588)</b>
	<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>	
112,344	- Charges for Depreciation of non-current assets	34,130
0	- Charges for Downward Revaluation of non-current assets	34,274
190	- Amortisation of intangible assets	115
7,656	- PPE non-current assets written off on disposal or sale	5,538
(1,669)	- PPE depreciation written off on disposal or sale	(2,062)
4,880	- AHFS non-current assets written off on disposal or sale	5,370
(3,232)	- Adjusting amount written out to Revaluation reserve	(348)
(4,859)	- Accumulated gains on assets sold or scrapped	(8,086)
<b>(233,566)</b>	<b>Net written out amount of the cost of non-current assets consumed in year</b>	<b>(188,657)</b>
	<i>Capital Financing for the year:</i>	
(1,570)	- Use of Capital Receipts to finance new Capital expenditure	(2,021)
(9,644)	- Capital Grants and Contributions credited to the CIES	(13,460)
(7,734)	- Statutory Provision for the financing of capital investment	(8,102)
0	- Capital expenditure charged against the General Fund and HRA	0
0	- Application of grants to capital financing from the Capital Grants Unapplied Account	0
0	- Capital Grants and Contributions moved to the Capital Grants Unapplied Account	0
<b>(252,514)</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>(212,240)</b>

### 22.2 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 1<sup>st</sup> April 2007, the date that reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2013/14 £000		2014/15 £000
<b>(77,525)</b>	<b>Restated Balance at 1<sup>st</sup> April</b>	<b>(85,991)</b>
(21,632)	(Upward) / downward Revaluation of Assets	(11,612)
	Downward revaluation of assets and impairment losses not charged to the Surplus /	
3,232	(Deficit) on the provision of services	7989
4,859	Accumulated losses on assets sold	348
<b>(91,066)</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>(89,266)</b>



## Notes to the Financial Statements

### 22.3 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.

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
<b>65,872</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>80,421</b>
	Return on Pension Assets	
10,441	Actuarial (gains) / losses arising on changes in financial assumptions	29,203
	Actuarial (gains) / losses arising from other experience	
	Reversals of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the CIES	17,819
(11,071)	Employer's pension contributions	(11,894)
<b>80,421</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>115,549</b>

### 22.4 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 31<sup>st</sup> 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 £0.260 million (2013/14 £0.347 million)

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
<b>4,601</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>4,948</b>
(4,601)	Settlement or cancellation of accrual made at end of preceding year	(4,948)
4,948	Amounts accrued at the end of the current year	5,208
<b>4,948</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>5,208</b>

### 22.5 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.

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
<b>3,296</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>3,082</b>
	Proportion of equivalent interest rate calculation on lender option / borrower option	
(7)	loans	(7)
(207)	Change in share of equivalent interest rate calculation	(199)
<b>3,082</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>2,876</b>

## Notes to the Financial Statements

### 22.6 Available for Sale Financial Instruments Reserve

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

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
<b>(612)</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>(4,107)</b>
(3,495)	Upward revaluation of investments	
	Downward revaluation of investments not charged to Surplus/Deficit on the	
0	Provision of Service	1,075
	Accumulated gains on assets sold and maturing assets written out to the CIES as part	
0	of Other Investment Income	
<b>(4,107)</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>(3,032)</b>

## Notes to the Financial Statements

### 23. Analysis of Adjustments to Surplus/Deficit on the Provision of Services

2013/14		2014/15
£000		£000
<b>(95,367)</b>	<b>Net surplus or (deficit) on the provision of services</b>	<b>(55,510)</b>
	<b>Adjustment to surplus or deficit on the provision of services for noncash movements</b>	
29,549	Depreciation	34,130
82,792	Impairment & downward revaluations (& non-sale derecognitions)	34,052
190	Amortisation	115
0	Impairment losses on loans & advances debited to surplus or deficit on the provision of services in year	247
468	Adjustment for internal interest charged	323
(371)	(Increase)/Decrease in Inventories	194
697	(Increase)/Decrease in Debtors	1,589
347	(Increase)/Decrease in Interest and Dividend Debtors	(170)
0	Adjustment for effective interest rates	0
3,051	Increase/(Decrease) in Creditors	(2,446)
131	Increase/(Decrease) in Interest Creditors	(82)
4,108	Movement in Pension Liability	5,925
10,866	Carrying amount of non-current assets sold	8,846
(638)	Contributions to Other Reserves/Provisions	621
0	Carrying amount of short and long term investments sold	
(644)	Other non-cash movements and transfers to investing activities	(407)
<b>130,539</b>		<b>83,061</b>
	<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>	
	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	
(7,196)	Proceeds from the sale of PP&E, investment property and intangible assets	(2,020)
(9,644)	Capital grants included in "Taxation & non-specific grant income"	(13,460)
0	Premiums or discounts on the repayment of financial liabilities	
<b>(16,840)</b>		<b>(15,480)</b>
<b>18,332</b>	<b>Net Cash Flows from Operating Activities</b>	<b>11,947</b>
	<b>Operating activities within the cash flow statement include the following cash flows relating to interest</b>	
803	Interest Received	224
(13,434)	Interest Paid	(13,130)
180	Dividends Received	300
<b>(12,451)</b>		<b>(12,606)</b>

### 24. Net Cash Flows from Investing Activities

2013/14		2014/15
£000		£000
(34,839)	Purchase of PP&E, investment property and intangible assets	(24,753)
0	Purchase of Short Term Investments (not considered to be cash equivalents)	(40,000)
5,219	Proceeds from the sale of PP&E, investment property and intangible assets	3,901
28,900	Proceeds from Short Term Investments (not considered to be cash equivalents)	0
15,368	Other Receipts from Investing Activities	19,050
<b>14,648</b>	<b>Net Cash flows from Investing Activities</b>	<b>(41,802)</b>

## Notes to the Financial Statements

### 25. Net Cash Flows from Financing Activities

2013/14 £000		2014/15 £000
71,200	Cash Receipts from Short and Long Term Borrowing	183,754
(1,040)	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(1,040)
(75,227)	Repayment of Short and Long Term Borrowing	(175,042)
<b>(5,067)</b>	<b>Net Cash flows from Financing Activities</b>	<b>7,672</b>

### 26. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the CIES is that specified by BVACOP. However, decisions about resource allocation are taken by Council on the basis of budget reports analysed over Divisions and functional service areas as defined by the Council's management structure. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation reserve and amortisations are charged to services in the CIES);
- The cost of retirement benefits is based on cash flows (payment of employer's pension contributions) rather than current service cost of benefits accrued in the year;
- Expenditure on some support services is budgeted for centrally and not charged to services.

The net expenditure for each of the Council's functional service areas is shown below.

		2013/14 Net				2014/15 Net	
Expenditure	Income	Expenditure	Service Area	Expenditure	Income	Expenditure	
£000	£000	£000		£000	£000	£000	
14,976	103	14,873	Childrens Services	15,026	162	14,864	
5,646	2,004	3,642	Communities and Economy	5,888	2,542	3,346	
72,288	1,846	70,442	Education	76,551	1,897	74,654	
47,190	13,300	33,890	Adult Social Care	48,835	13,344	35,491	
43,722	32,390	11,332	Customer and Housing Services	43,980	31,367	12,613	
17,668	2,129	15,539	Commercial Services	17,678	1,829	15,849	
13,707	401	13,306	Finance and Integrated Service Support	13,141	381	12,760	
20,610	7,292	13,318	Properties and Facilities Management	21,394	8,482	12,912	
485	0	485	Joint Boards	556	0	556	
5,265	0	5,265	Loan Charges	7,502	0	7,502	
214	939	(725)	Investment Income	0	300	(300)	
814	41	773	Other Expenditure	1,298	60	1,238	
<b>242,585</b>	<b>60,445</b>	<b>182,140</b>	<b>Total Expenditure</b>	<b>251,849</b>	<b>60,364</b>	<b>191,485</b>	
		(38,708)	Council Tax Income			39,558	
		(149,860)	Scottish Government Grant			152,731	
		<b>(6,428)</b>	<b>General Fund Services</b>			<b>(804)</b>	

# Notes to the Financial Statements

## Reconciliation of Income and Expenditure to the Cost of Services in the CIES

This reconciliation shows how the figures in the analysis of functional income and expenditure relate to the amounts included in the CIES.

2013/14		2014/15
£000		£000
(6,428)	Net Expenditure per Council functional analysis	(804)
(3,701)	HRA Outturn	(3,002)
<b>(10,129)</b>	<b>Total Net Expenditure</b>	<b>(3,806)</b>
	<i>Net Expenditure of services not included in CIES</i>	
(4,268)	Loans fund Principal repayments	(7,062)
(966)	Statutory Provision for the repayment of Debt	(1,040)
(278)	Repairs and Renewals	(520)
	<i>Amounts in the CIES not reported to Management</i>	
112,534	Depreciation, Impairment and Amortisation	68,394
3,670	Surplus / (losses) on sale of fixed assets	6,826
(7)	Financing Costs	(7)
4,108	Pensions Interest Costs	5,925
347	Short Term Accumulated Absences	260
(9,644)	Government Grants and Contributions	(13,460)
<b>95,367</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>55,510</b>

## 27. Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice is £0.239 million (2013/14 £0.237 million). There were no other fees payable in respect of any other services provided by the appointed auditor.

## 28. Devolved School Management

The net amount of balances to be carried forward for schools under the scheme is £1.008 million (2013/14 £0.662 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

## 29. Grant Income Credited to Services

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

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

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

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

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

## Notes to the Financial Statements

The Council credited the following grants to the CIES:

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
26,429	Housing / Rent Benefit Subsidy	26,384
5,913	Lothian Health Board / Resource Transfer	6,058
1,010	Criminal Justice	1,016
572	Housing Benefit Administration	447
439	Skillseekers	284
4	Conservation Area Regeneration Scheme	195
198	Private Sector Housing Grant	287
287	Active Schools / Sports Scotland	261
80	Lifeskills Project	110
186	Contaminated Land	270
113	Youth Music Initiative	142
200	Heritage Lottery	135
14	New Leaf	54
177	Opportunities for All	127
190	Innovation Project	116
225	Business Gateway	271
114	Welfare Rights	78
629	Other Grants and Contributions	747
<b>36,780</b>	<b>Total Grants and Contributions</b>	<b>36,982</b>

### 30. 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:

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
<b>9,893</b>	<b>Balance at 1 April</b>	<b>12,153</b>
3,152	New capital grants received in advance, conditions of use not met	6,325
(892)	Amounts released to CIES, conditions of use met	(429)
<b>12,153</b>	<b>Balance at 31 March</b>	<b>18,049</b>

### 31. Related Parties

#### 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). Grants received from the Scottish Government are set out in Note 26 on amounts reported to decision makers.

#### Officers

There are no significant related party transactions with Officers of the Council.

#### Elected Members

Elected members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2014-15 is shown in the Remuneration Report. There are no other significant related party transactions with members of the Council.

# Notes to the Financial Statements

## Entities Controlled or Significantly Influenced by the Council

During the year the Council entered into a number of material transactions with related parties. The most material of these transactions not shown elsewhere are Joint Board requisitions and payments to Lothian Pension Fund as shown below:

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
(71)	Lothian and Borders Police Board	0
556	Lothian Valuation Board	556
13,118	Lothian Pension Fund	13,115

Creditors within the Balance Sheet include £0.016 million (2013/14 £0.016 million) due to Lothian Pension Fund.

## 32. Capital Expenditure and Capital Financing

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

<b>2013/14</b>	<b>2013/14</b>		<b>2014/15</b>	<b>2014/15</b>
<b>£000</b>	<b>£000</b>		<b>£000</b>	<b>£000</b>
	<b>297,002</b>	<b>Opening Capital Financing Requirement</b>		<b>311,503</b>
		<b>Capital Expenditure</b>		
33,388		Property, Plant and Equipment	23,149	
60		Intangible Assets	139	
	<b>33,448</b>			<b>23,288</b>
		<b>Capital Financing</b>		
(1,570)		Capital Receipts	(2,021)	
(7,293)		Government Grants	(10,860)	
(2,352)		Contribution from Other Bodies	(2,600)	
(7,734)		Loans Fund and Lease Repayments	(8,101)	
	<b>(18,949)</b>			<b>(23,582)</b>
	<b>311,503</b>	<b>Closing Capital Financing Requirement</b>		<b>311,209</b>
	<b>14,501</b>	<b>Increase in Capital Financing Requirement</b>		<b>(294)</b>

## 33. Commitments under Capital Contracts

As at 31 March 2015, the Council was contractually committed to capital works which amounted to £6.601 million (31 March 2014 equivalent £2.929 million).

The value of work completed as at 31 March 2015 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:-

1. HRA Phase II Housing: Site 60 Edgefield Road, Loanhead. £3.788 million contractual commitment; £3.557 million remaining commitment outstanding;
2. HRA Phase II Housing: Site 42 Jackson Street, Penicuik. £1.621 million contractual commitment; £0.743 million remaining commitment outstanding;
3. HRA Phase II Housing: Site 9 Cragiefield Crescent, Penicuik. £2.155 million contractual commitment; £0.611 million remaining commitment outstanding.

The total value of retentions held as at 31 March 2015 amount to £0.285 million.

# Notes to the Financial Statements

## 34. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, these elements are considered separately for classification.

Assets acquired by the Council under finance leases are shown in the Balance Sheet together with a liability to pay outstanding rentals. Rental payments are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease.

Rental payments made by the Council under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

Where the Council grants an operating lease to a lessee over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement with credits being made on a straight-line basis over the life of the lease.

## Finance

The council currently holds no finance leases out with the PPP schemes outlined in Note 35.

## Operating

The council uses assets financed under the terms of an operating lease. The amount charged to revenue for the year was £0.646 million (2013/14 £0.702 million). This all related to Vehicles, Plant and Equipment. Future cash payments under these leases within 1 year is £0.407 million (2013/14 £0.444 million) and within 2 to 5 years is £0.202 million (2013/14 £0.206 million).

## 35. Public Private Partnership

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

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

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

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

- fair value of the services received during the year – debited to the relevant service in the CIES;
- finance cost – an interest charge of 10.22% on the outstanding Balance Sheet liability for Dalkeith Schools PPP and 7.29% for Midlothian Primary Schools, debited to the Financing and Investment Income and Expenditure line in the CIES;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle component replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.



## Notes to the Financial Statements

The Council has entered into two 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 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.

Neither contractor has any right of renewal on contract expiry. Termination of contracts are either at contract end date or following the issue of a contractor default notice or voluntary termination with one contract month's notice for Dalkeith Schools Campus or 6 months notice for the Primary Schools.

The assets used to provide the services at these schools 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 2015 is £58.491 million (2013/14 £59.658 million). The movement is depreciation of £1.167 million (2013/14 £1.166 million and additions of £0.059 million). There is a deferred liability at 31 March 2015 for the financing of these assets of £57.300 million (2013/14 £58.340 million). Details of payments to be made under PFI arrangements are:

During the year a total of £1.040 million (2013/14 £0.966 million) was paid in relation to finance lease liabilities under the PFI contracts.

Period	Dalkeith Campus				Primary Schools			
	Liability £000	Interest £000	Service Charge £000	Total £000	Liability £000	Interest £000	Service Charge £000	Total £000
Within 1 year	504	2,548	1,851	4,903	617	2,360	1,829	4,806
Within 2 to 5 years	2,584	9,623	7,878	20,085	2,913	8,961	7,834	19,708
Within 6 to 10 years	5,022	10,237	11,008	26,267	5,008	9,834	10,946	25,788
Within 11 to 15 years	8,168	7,091	12,454	27,713	7,120	7,722	12,384	27,226
Within 16 to 20 years	8,662	2,119	9,783	20,564	10,125	4,718	14,011	28,854
Within 21 to 25 years	0	0	0	0	6,578	881	7,735	15,194
<b>Total Contract</b>	<b>24,940</b>	<b>31,618</b>	<b>42,974</b>	<b>99,532</b>	<b>32,361</b>	<b>34,476</b>	<b>54,739</b>	<b>121,576</b>

### 36. 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 2014/15 the Council paid £4.896 million (2013/14 £4.855 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 14.9% (2013/14 14.9%).

#### 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.

## Notes to the Financial Statements

In 2014/15 the Council paid an employer contribution of £11.894 million (2013/14 £11.071 million) into the Lothian Pension Fund, representing 24.9% (2013/14 23.1%) 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 2016 will be £9.985 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

2013/14 £000		2014/15 £000
	Net cost of services:	
12,059	Current Service Cost	13,802
130	Past Service Costs (including curtailments)	510
	Net operating expenditure:	
16,702	Interest cost	17,458
(13,712)	Expected return on scheme assets	(13,951)
<b>15,179</b>	<b>Net charge to CIES</b>	<b>17,819</b>

### Adjustment between accounting basis & funding basis under regulation

(15,179)	Reversal of net charges made for retirement benefits in accordance with IAS 19	(17,819)
11,071	Employers contributions payable to pension fund	11,894

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 £29.203 million (2013/14 loss of £10.441 million) were included in other comprehensive income and expenditure in the CIES.

### Assets and Liabilities in relation to retirement benefits

2013/14 £000		2014/15 £000
	Reconciliation of present value of the scheme liabilities:	
369,730	Opening Balance	404,226
12,059	Current Service Costs	13,802
16,702	Interest Cost	17,458
3,034	Contribution by Members	3,032
14,929	Actuarial losses/(gains)	67,814
130	Past Service Costs (including curtailments)	510
(890)	Estimated Unfunded Benefits Paid	(925)
(11,468)	Estimated Benefits Paid	(12,255)
<b>404,226</b>	<b>Balance at 31 March</b>	<b>493,662</b>

2013/14 £000		2014/15 £000
	Reconciliation of fair value of the scheme assets:	
303,857	Opening Balance	323,804
13,712	Expected return on Assets	13,951
3,034	Contributions by Members	3,032
10,181	Contributions by the Employer	10,969
890	Contribution in respect of unfunded benefits	925
4,488	Actuarial gains	38,611
(890)	Unfunded Benefits paid	(925)
(11,468)	Benefits paid	(12,255)
<b>323,804</b>	<b>Balance at 31 March</b>	<b>378,112</b>

## Notes to the Financial Statements

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.

### Scheme History

	<b>2014/15</b>	<b>2013/14</b>	<b>2012/13</b>	<b>2011/12</b>	<b>2010/11</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Present value of liabilities	(493,662)	(404,226)	(369,730)	(317,109)	(322,404)
Fair Value of Assets	378,112	323,804	303,858	262,096	258,602
<b>Surplus/(deficit)</b>	<b>(115,550)</b>	<b>(80,422)</b>	<b>(65,872)</b>	<b>(55,013)</b>	<b>(63,802)</b>

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £493.662 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £115.550 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 2014, the funding level was 93% and that a period of 20 years has been adopted in assessing the level of contribution required to fund that deficiency. The employers contribution in 2014/15 was 273% of employees 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 2015.

The main assumptions used by the actuary have been:

<b>2013/14</b>		<b>2014/15</b>
	Longevity at 65 for current pensions (Mortality):	
20.4	Men (years)	22.1
22.8	Woman (years)	23.7
	Longevity at 65 for future pensions (Mortality):	
22.6	Men (years)	24.2
25.4	Woman (years)	26.3
2.8%	Inflation / Pension Increase Rate	2.4%
5.1%	Salary Increase Rate	4.3%
4.3%	Discount Rate	3.2%
	Take up of options to convert Annual Pension into Retirement Lump	
50%	Sum – Services to April 2009	50%
75%	Retirement Lump Sum - Services post April 2009	75%

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

<b>31/03/2014</b>		<b>31/03/2015</b>
66%	Equity Securities	61%
6%	Debt Securities	8%
12%	Private Equity	12%
8%	Real Estate	8%
2%	Investment Funds and Unit Trusts	3%
6%	Cash and Cash Equivalents	8%
<b>100%</b>		<b>100%</b>

## Notes to the Financial Statements

Local Government legislation provides that Local Authorities have an obligation to meet the expenditure of the Joint Boards of which they are constituent members. As a consequence the Council has additional liabilities arising from the pension deficit of the Lothian Valuation Joint Board.

Further information regarding this deficit can be found in Note 39 to the Financial Statements.

### 37. Contingent Liability

There are currently a number of ongoing employment tribunal cases in respect of equal pay. Until these are resolved there continues to be an unquantifiable risk of additional liabilities.

The Borders Railway opened to the public on Sunday 6<sup>th</sup> September 2015 running from Tweedbank in the Scottish Borders through Midlothian to Waverley Station in Edinburgh. There are four stations in Midlothian at Gorebridge, Newtongrange, Eskbank and Shawfair. Midlothian's contribution to the project is capped at £30 million and is payable to the Scottish Government in planned instalments over the coming years. This contribution is anticipated to be fully funded from section 75 agreements with Housing Developers however any circumstances arising that prevented full collection of contributions may give rise to a liability.

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

There are some 18 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:

<b>Restated</b>			<b>31/03/2015</b>
<b>31/03/2014</b>			
<b>£000</b>			<b>£000</b>
15	Dalkeith Common Good		15
2	Penicuik Common Good		2
251	Community Mining Funds		133
77	Other Funds		77
<b>345</b>	<b>Total</b>		<b>227</b>

A total of £0.074 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.

### 39. Other Entities

Due to the small nature of entities or shares of entities that would form part of the Council's Group Accounts it was considered unnecessary to prepare these accounts for 2014/15.

Midlothian have a solely owned subsidiary in Pacific Shelf 826 Ltd (PS 826 Ltd). The nature of the Company's business is land acquisition and development, acting as a land agent and promoting economic development. The company was incorporated on 31 March 1999. Turnover during 2014/15 was £0.002 million with a loss of £0.005 million being made. The company held net liabilities of £0.551 million. The accounts of PS 826 (Ltd) are published separately and are available from the Head of Finance and Integrated Service Support, Midlothian House, Dalkeith EH22 1DN.

In 2014/15 £0.556 million was the Council's contribution towards expenditure on the Lothian Valuation Joint Board, representing a 9.08% share of the total. The Board presented a deficit on the provision of services of £0.501 million and held net liabilities of £11.337 million. All reserves were unusable.

Accounts can be obtained from the Treasurer, City of Edinburgh Council, City Chambers, Edinburgh EH1 1YJ.

## **Notes to the Financial Statements**

### **40. Post Balance Sheet Events**

There are no post balance sheet events.

## 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 2015

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

2013/14		2014/15	per house
£000		£000	per week
			£
	<b>Income</b>		
21,182	Gross dwelling rents	22,089	60.98
470	Non dwelling rents	487	1.34
1,239	Other Income	2,393	6.61
<b>22,891</b>		<b>24,969</b>	<b>68.93</b>
	<b>Expenditure</b>		
4,522	Repairs and Maintenance	5,291	14.61
4,700	Supervision and Management	4,818	13.30
12,670	Depreciation of Non-Current Assets	12,406	34.25
73,692	Impairment of Non-Current Assets	31,111	85.88
1,736	Other Expenditure	1,896	5.23
25	Increase / (Decrease) in Bad Debt Provision	175	0.48
<b>97,345</b>		<b>55,697</b>	<b>153.75</b>
	<b>Net Cost of HRA services per the whole council Comprehensive</b>		
<b>74,454</b>	<b>Income and Expenditure Account</b>	<b>30,728</b>	<b>84.82</b>
250	HRA share of Corporate and Democratic Core	250	0.69
<b>74,704</b>	<b>Net Cost of HRA Services</b>	<b>30,978</b>	<b>85.51</b>
	<b>HRA share of the operating income and expenditure included in the</b>		
	<b>whole council accounts</b>		
(399)	Loss / (Gain) on sale of HRA fixed assets	(509)	(1.41)
4,857	Interest Payable and similar charges	4,815	13.29
(166)	Interest and Investment Income	(147)	(0.41)
1,125	Capital Grants Unapplied	2,314	6.40
208	Net Defined Benefit Liability and Expected Return on Pension Asset	243	0.67
<b>80,329</b>	<b>Deficit / (Surplus) for the year on the HRA Services</b>	<b>37,694</b>	<b>104.05</b>

### Movement on the HRA Statement for year ended 31 March 2015

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.

2013/14		2014/15	per house
£000		£000	per week
80,329	Deficit for the year on the HRA Income & Expenditure Account	37,694	104.05
	<b>Items included in the HRA Income &amp; Expenditure Account but</b>		
	<b>excluded from the movement on HRA balance for the year</b>		
399	Gain/(loss) on sale of HRA fixed assets	509	1.41
(83,977)	Transfer to/(from) Capital Adjustment Account	(40,652)	(112.22)
(451)	HRA share of contributions to/from pension reserve	(553)	(1.53)
	<b>(Surplus) or deficit for the year on the Housing Revenue Account</b>		
<b>(3,701)</b>	<b>Income and Expenditure Account</b>	<b>(3,002)</b>	<b>(8.29)</b>
<b>(14,673)</b>	Housing Revenue Account Balance brought forward	<b>(18,374)</b>	<b>(50.72)</b>
<b>(18,374)</b>	<b>Housing Revenue Account Balance carried forward</b>	<b>(21,376)</b>	<b>(59.01)</b>

# 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 2015 the Council had 6,835 houses (31 March 2014 6,850) which can be analysed as follows:

2013/14		2014/15
Number	Type of Dwelling	Number
802	1 Bedroom	805
3,824	2 Bedroom	3,815
1,889	3 Bedroom	1,879
326	4 Bedroom	327
9	5 / 6 Bedroom	9
<b>6,850</b>	<b>Total</b>	<b>6,835</b>

## 3. Rent Arrears

At the end of the year rent arrears amounted to £2.504 million (2013/14 £2.036 million) for which a provision for bad and doubtful debts of £0.700 million (2013/14 £0.525 million) exists.

## 4. Void Properties

The total value of uncollectable void rents for main provision properties amounted to £0.354 million (2013/14 £0.502 million). This has been netted against rental income.

# Council Tax Income Account

For the year ended 31 March 2015

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).

2013/14 £000		2014/15 £000
44,831	Gross Council Tax levied and Contributions in Lieu	45,707
	<b>Less :</b>	
4,946	Discounts	4,975
5,346	Council Tax Reduction Scheme	5,127
1,189	Write-off of Uncollectable Debts and Allowances for Impairment	1,216
<b>33,350</b>		<b>34,389</b>
11	Adjustments to previous years Community Charge and Council Tax	41
<b>33,361</b>	<b>Transfers to the General Fund</b>	<b>34,430</b>

## Notes to the Council Tax Income Account

1. Calculation of the council tax base for the year 2014/15.

	Property Bands								Total
	A	B	C	D	E	F	G	H	
Properties	1,018	12,467	10,599	4,888	4,546	2,875	1,882	166	38,441
Disabled relief	41	5	-15	-5	-9	-2	-15	0	0
<b>Less</b>									
Exemptions	66	462	265	78	191	44	19	4	1,129
Discounts (25%)	147	1,445	891	339	228	92	51	4	3,197
Discounts (50%)	2	7	5	1	2	3	2	0	22
Other Discounts	11	31	22	17	5	4	3	1	94
Council Tax Reduction									
Scheme	255	2,737	1,523	302	122	45	22	0	5,006
Effective properties	577	7,793	7,872	4,148	3,989	2,687	1,770	158	28,994
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D equivalents	384	6,061	6,997	4,148	4,876	3,881	2,950	316	29,613
Contributions in lieu – Band D equivalents									202
<b>Total Council Tax Base</b>									<b>29,815</b>
Provision for non payment									(1,004)
<b>Total</b>									<b>28,811</b>

2. Number of 'effective' properties and charges for each band

Band	A	B	C	D	E	F	G	H	Total
Numbers	577	7,793	7,872	4,148	3,989	2,687	1,770	158	28,994
£	806.67	941.11	1,075.56	1,210.00	1,478.89	1,747.78	2,016.67	2,420.00	



# Non-Domestic Rate Income Account

For the year ended 31 March 2015

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.

<b>2013/14</b>		<b>2014/15</b>
<b>£000</b>		<b>£000</b>
36,751	Gross rates levied	38,172
	<b>Less:</b>	
8,148	Reliefs and other deductions	8,122
0	Interest paid	0
755	Write-offs of uncollectable debts and allowance for impairment	811
896	Adjustments to previous years	1,165
<b>26,952</b>	<b>Net Non Domestic Rate Income</b>	<b>28,074</b>
0	Non-Domestic Rate Income Retained by Authority (BRIS)	(366)
<b>26,952</b>	<b>Contribution to Non-Domestic Rate Pool</b>	<b>27,708</b>
	<b>Allocated:</b>	
27,021	Contribution to national non-domestic rates pool	27,708
(69)	Midlothian Council	(71)
<b>26,952</b>		<b>27,637</b>

## Notes

- The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £29.013 million (2013/14 £26.665 million).
- Occupiers of non-domestic properties 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 47.1p per £ (2013/14 46.2p per £) where the rateable value was less than or equal to £35,000 and 48.2p per £ (2013/14 47.1p per £) where the rateable value exceeded £35,000.
- Small Business Bonus Scheme - From 1 April 2010, a ratepayer who occupies or is entitled to occupy one or more non-domestic properties which have a combined rateable value of £18,000 or less then they may be eligible for a discount of between 25% and 100% on their bill. In addition, where the cumulative rateable value of a businesses properties falls between £18,000 and £25,000, the Scheme will offer 25% relief to individual properties with a rateable value of up to £18,000.

- Rateable Value as at the start of the year

<b>Number</b>	<b>Rateable Value</b>		<b>Number</b>	<b>Rateable Value</b>
<b>2013/14</b>	<b>2013/14</b>		<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>			<b>£000</b>
1,651	43,560	Shops, Offices and Other Commercial Subjects	1,671	44,743
881	14,959	Industrial and Freight Transport	884	14,800
292	18,781	Miscellaneous (Schools etc)	295	18,993
<b>2,824</b>	<b>77,300</b>		<b>2,850</b>	<b>78,536</b>

- 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. Implementation of the BRIS scheme has been delayed pending clarification of some of its operational points. However for 2012/13, following discussions between Councils and the Scottish Government, it was agreed to release £9.000 million of NDR income in excess of targets. Midlothian Council's share of this was £0.366 million.

# **Independent Auditor's Report to the members of Midlothian Council and the Accounts Commission for Scotland**

We certify that we have audited the financial statements of Midlothian Council for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet, and Cash-Flow Statement, the Housing Revenue Account, the Council Tax Income Account, and the Non-domestic Rates Income Account, Common Good Funds, Trust Funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

## **Respective responsibilities of the Head of Finance and Integrated Service Support and auditor**

As explained more fully in the Statement of Responsibilities, the Head of Finance and Integrated Support Services is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the authority and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Integrated Support Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the abstract of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on financial statements**

In our opinion the financial statements:  
give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the local authority as at 31 March 2015 and of the income and expenditure of the authority for the year then ended;  
have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and  
have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## **Opinion on other prescribed matters**

In our opinion:  
the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and  
the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we are required to report by exception**

We are required to report to you if, in our opinion:

adequate accounting records have not been kept; or  
the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or  
we have not received all the information and explanations we require for our audit; or  
the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or  
there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Paul Dossett, (for and on behalf of Grant Thornton UK LLP)  
7 Exchange Crescent  
Edinburgh  
EH3 8AN  
29 September 2015

# 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 fixed assets used in the provision of services.

## Glossary of Terms

### **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 fixed assets.

### **20. Capital Adjustment Account**

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

### **21. Useable Capital Receipts Reserve**

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

### **22. Pension Reserve**

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

### **23. Associate**

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

### **24. Entity**

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