



**Midlothian Council**  
**Audited**  
**Financial Statements**  
**2016/17**

## Table of Contents

Management Commentary by the Head of Finance and Integrated Service Support .....	4
Statement of Responsibilities for the Financial Statements .....	14
Annual Governance Statement .....	16
Remuneration Report.....	22
Expenditure and Funding Analysis.....	32
Movement in Reserves Statement .....	34
Comprehensive Income and Expenditure Statement.....	36
Balance Sheet.....	38
Cash Flow Statement.....	39
Notes to the Financial Statements .....	40
1. Statement of Accounting Policies.....	40
2. Accounting Standards that have been issued but not yet adopted.....	50
3. Critical Judgements in Applying Accounting Policies.....	50
4. Assumptions made about the future and other major sources of estimation uncertainty.....	50
5. Note to the Expenditure and Funding Analysis .....	52
6. Adjustments between accounting basis and funding under regulations .....	54
7. Non-distributable costs .....	58
8. Other operating income and expenditure.....	58
9. Financing and investing income and expenditure.....	58
10. Taxation and specific grant income .....	59
11. Movement in non-current assets, property, plant and equipment.....	59
12. Intangible Assets .....	62
13. Movement in assets held for sale.....	63
14. Heritage assets .....	63
15. Financial instruments .....	63
16. Long Term Investments.....	70
17. Debtors.....	71
18. Cash and cash equivalents .....	72
19. Creditors.....	72
20. Provisions .....	72
21. Other long term liabilities .....	73
22. Usable reserves .....	73
23. Unusable reserves.....	74
24. Cash Flow Statement – operating activities .....	78
25. Cash Flow Statement - investing activities .....	79

26. Cash Flow Statement - financing activities.....	79
27. Audit fees .....	79
28. Capital grants received in advance.....	79
29. Related parties .....	80
30. Capital expenditure and capital financing .....	81
31. Commitments under capital contracts .....	82
32. Public-private partnership.....	82
33. Retirement benefits .....	84
34. Contingent liability .....	88
35. Contingent assets .....	89
36. Midlothian council trusts, bequests, common good fund and community funds.....	89
37. Post balance sheet events .....	89
Housing Revenue Account .....	90
Income and expenditure account.....	90
Notes to the Housing Revenue Account.....	91
Council Tax Income Account .....	92
Income and expenditure account.....	92
Notes to the Council Tax Income Account .....	93
Non-Domestic Rates Income Account .....	94
Income and expenditure account.....	94
Notes to the Non-Domestic Rates Income Account .....	94
Group Movement in Reserves Statement .....	96
Group Comprehensive Income and Expenditure Statement.....	98
Group Balance Sheet.....	100
Notes to the Group Accounts .....	101
Independent Auditor's Report .....	103
Glossary of Terms.....	106

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

The Financial Statements present the financial performance of Midlothian Council for the year to 31 March 2017. They are prepared in accordance with the International Financial Reporting Standards (IFRS) based on the Code of Practice on Local Authority Accounting in the United Kingdom 2016-17 (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 36. To show the financial position of the Council it is necessary to adjust the CIES for statutory items that require to be taken into account in determining the General Fund and Housing Revenue Account (HRA) balances for the year. These are shown in the Expenditure and Funding Analysis on page 32, the Movement in Reserves Statement on page 34 and in more detail in note 6 on page 54.

#### General Fund

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules provide otherwise. The General Fund is funded by government grants, fees and charges, council tax income, non domestic rates income and interest / returns on investments and is split between uncommitted balances, which are held to manage financial risks and unplanned expenditure, and balances which have been earmarked for specific purposes.

The outturn position for the General Fund compared to budget in 2016/17 is shown in the following diagram and table. Full details were reported to Midlothian Council on 27<sup>th</sup> June 2017 and are available on the Council's website.

**Graph 1 - 2016/17 Net Expenditure by Council Service £'000**

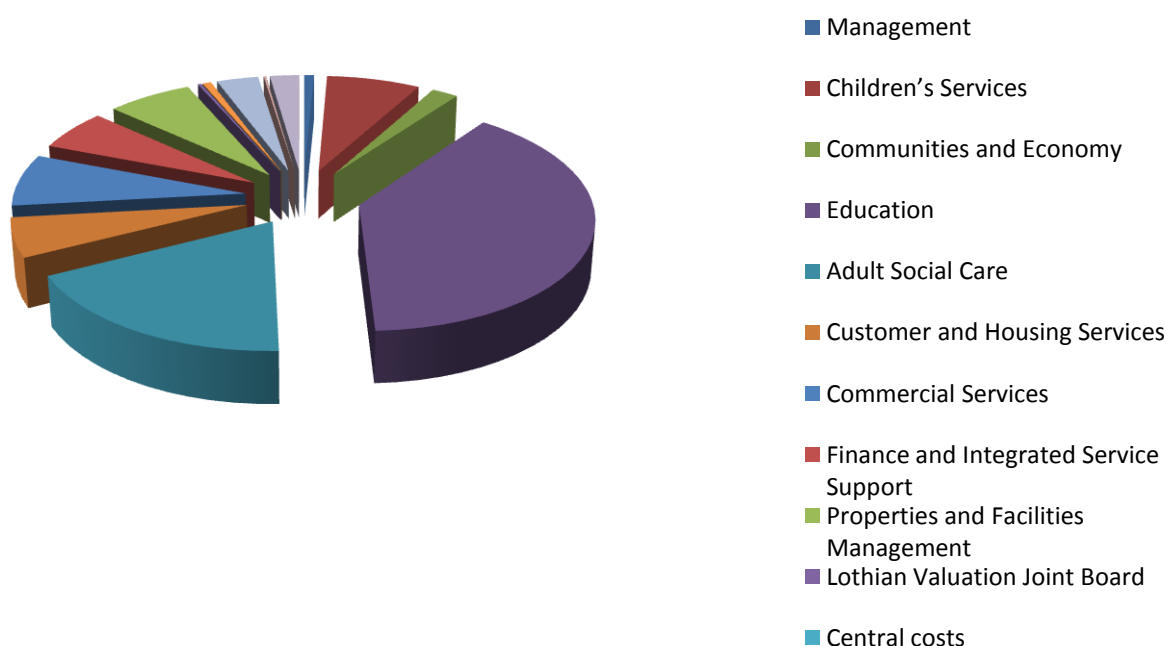
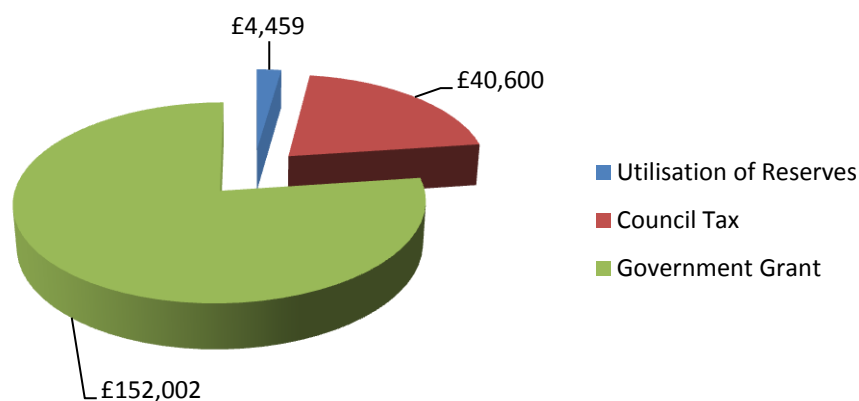


Table 1: General Fund – Performance against Budget

	Budget	Net Expenditure	(Under) / Overspend
Service Area	£000	£000	£000
Management	1,618	1,618	0
Children's Services	15,461	15,431	-30
Communities and Economy	4,301	4,378	77
Education	82,301	82,589	288
Adult Social Care	37,495	38,237	742
Customer and Housing Services	11,932	11,963	31
Commercial Services	16,348	15,850	-498
Finance and Integrated Service Support	12,263	12,365	102
Properties and Facilities Management	14,009	14,049	40
Lothian Valuation Joint Board	556	560	4
Central costs	-452	0	452
Non-distributable costs	1,339	1,407	68
Loan charges	6,583	6,870	287
Investment Income	-300	-360	-60
Transformation programme savings targets	-1,611	0	1,611
Allocations to HRA, Capital Account etc.	-4,782	-4,834	-52
<b>Net General Fund Expenditure</b>	<b>197,061</b>	<b>200,123</b>	<b>3,062</b>
Less Funding:			
Scottish Government Grant	152,002	152,002	0
Council Tax Income	40,600	41,146	-546
<b>General Fund Utilisation of Reserves</b>	<b>4,459</b>	<b>6,975</b>	<b>2,516</b>

Graph 2 - 2016/17 General Fund Revenue £'000



The most significant factors which led to the variance from the budget were a shortfall in the achievement of transformation savings targets for Integrated Service Support, procurement activity, tactical reductions in contracted hours, Customer Services and Education. The combined effect of these resulted in a £1.611 million overspend. There were also continued high levels of demand pressures within Adult Social Care, particularly the Community Care Resource Panel and in Home Care which overspent by £1.436 million, partially offset by service user income and non-recurring funding, resulting in a net overspend of £0.742 million. There was less slippage in capital programmes than anticipated in the budget for loan charges. This meant that borrowing was higher than planned resulting in an £0.287 million overspend.

Actual net service expenditure for the year was £200.123 million representing 101.55% of the £197.061 million budget. General Fund services showed a net overspend against budget of £2.516 million. Funding through council tax was £0.546 million 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 94.5% which is an increase of 0.1% from the previous year. Direct debit now accounts for 86% of total Council Tax income collection which is an increase of over 12% on 2015/16.

The General Fund reserve at the start of the year was £24.625 million, of which £7.821 million was earmarked for specific purposes in 2016/17. The position at 31st March 2017 is a reserve of £17.651 million of which £9.094 million was earmarked for specific purposes leaving £8.557 million. A further £3.970 million was utilised to balance the 2017/18 budget, this leaves £4.587 million available as a contingency.

The earmarked element of the reserve includes ring-fenced funding from partner organisations of £1.975 million, budgets provided for specific purposes where spend has slipped into 2017/18 of £1.660 million, budgets for schools in accordance with the Scheme of Devolved School Management of £1.425 million and funding to support the Council Transformation Programme of £3.838 million.

In line with previous Council decisions a number of specific initiatives were funded from uncommitted reserves during the year including staff severance costs (£0.125 million), decriminalising the control of parking within the county (£0.100 million) and master planning work regarding the economic development opportunities presented by Borders Railway line (£0.200 million).

### Housing Revenue Account

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

The HRA showed a surplus of £4.841 million in 2016/17 and this increased the reserve to £29.754 million. There was an underspend of £0.469 million against budget mainly due to continuous capital investment in existing stock resulting in a decrease in spend on reactive repairs, delays in refurbishing works at Pentland and Midfield House resulting in an underspend on caretaking costs and lower than anticipated borrowing costs.

The council has an ambitious capital investment plan to build further 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 2016/17 £15.8 million was invested in new council houses and £6.4 million on SHQS improvement works. In the period to 31 March 2022 it is planned to invest a further £62 million on new council houses and £24 million on SHQS improvements.

## Capital

The Council continues to make significant capital investment in its non housing assets spending £31.2 million in 2016/17. This included £22.0 million on school upgrades, £3.1 million on roads, pavements and street lighting, £1.7 million on replacing and upgrading the Council's fleet and £0.9 million on centralised property upgrades. This expenditure was funded by a combination of government grants, capital receipts, Section 75 developer contributions and borrowing. A full analysis of capital expenditure and financing is provided in note 30 to the financial statements.

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

The Capital Financing Requirement represents the Council's underlying need to borrow for capital expenditure. It is not allowed to rise indefinitely and statutory controls exist to ensure debt is affordable and repaid over a reasonable timeframe. The Council's underlying need to borrow for 2016/17 at the time the budget was set was £310.934 million. The actual position was £276.334 million with total debt at 31st March 2017 of £257.303 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 £334.260 million for 2016/17 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 £310.933 million for 2016/17 is an estimate of the most likely maximum debt requirement and represents the limit beyond which external debt is not expected to exceed.

The ratio of financing costs to net revenue stream represents the proportion of the budget that is allocated to the financing of capital expenditure and highlights the trend in this allocation through financial years. Actual figures for General Services were 3.56% which is in line with approved strategy and 34.59% for HRA which is reflected in long term HRA financial plans to 2029/30.

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 2016/17 there was a reduction of £3.49 per Band D dwelling 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 £1.47 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 the finalisation of the construction of the new Loanhead Centre to accommodate Paradykes primary school, Loanhead library and Loanhead leisure centre, the

replacement of Roslin primary school, a new primary school at Hopefield and the replacement and expansion of Danderhall primary school. There will also be capital investment to complement the new Design, Build, Finance & Maintain (DBFM) projects for the Newbattle Centre and the Zero Waste Residual Treatment Facility. There will also be investment in the roads infrastructure and ongoing asset management replacement plans for buildings, fleet and information technology. There will also be investment in the construction of a new depot to replace the existing Stobhill depot and Council office accommodation.

### 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 2017 long term borrowing amounted to £208.816 million. During 2016/17 new long term borrowing of £20.000 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 all external debt decreased to 3.32% in 2016/17 from 3.61% in 2015/16. The internal loans fund rate decreased from 3.28% in 2015/16 (lowest in mainland Scotland) to 3.24% in 2016/17 and is again expected to remain one of the lowest amongst Scottish mainland Local Authorities.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the PWLB. Further details are provided in note 15 to the Financial Statements.

### **Assets and Liabilities**

The Balance Sheet on page 38 summarises the Council's assets and liabilities as at 31st March 2017. Total net assets decreased by £59.502 million from the position at 31<sup>st</sup> March 2016.

### Non-current and Current Assets

Operational and non operational assets increased in value by £10 million mainly due to the construction of new schools and housing. Short term investments increased by £10 million and cash and cash equivalents remained at a similar level.

### Net Pension Liability

The net pension liability of the Council as at 31st March 2017 was calculated in accordance with the requirements of International Accounting Standard 19 (IAS 19) and amounts to £118.041 million which is a increase of £49.896 million from 31st March 2016. 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 2017. The actuarial valuation of the Lothian Pension Fund, which takes a longer term view, will consider the appropriate employer's contribution rates and this, together with employee contributions and revenues generated from the Pension Fund investments, will be used to meet the fund's commitments as they arise. The last actuarial valuation at 31st March 2014 showed a funding level of 93% of



liabilities which is a reduction from 98% funding at the previous 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 employer's contribution rate is anticipated.

### Provisions, contingencies and write offs

The Council has made provisions for potential liabilities in respect of unsettled insurance claims of £1.463 million.

The provision for non collection of debt at 31st March 2017 was £33.9 million which is a slight increase on the position a year ago. There were a number of immaterial write offs approved by Cabinet during the year.

## **Financial Outlook and Key Risks**

The current economic climate impacts on the Council and the services it provides in a number of ways. From a financial perspective 2016/17 saw continued demographic pressures particularly around people with learning disabilities, 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, the integration of health and social care and the implementation of the Children Act 2014 as well as the planned expansion in early learning and childcare are major policy developments that will not only impact on the council budgets but also change the way services are provided.

For 2016/17 and again for 2017/18 the Scottish Government published a one year budget and grant settlement, as such Councils are currently unaware of the level of funding that will be available to them beyond 2017/18. The UK Government budget faces the impact of very tough spending reductions and all indications are that for the public sector in general and Local Government in particular this will continue. It is therefore inevitable this will have an adverse impact on the amount of central funding available to the Council.

In February 2017 the Council set a budget for 2017/18 which included savings of £6.907 million, increases in council tax funding of £1.554 million and a £3.970 million utilisation of reserves.

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. Latest projections for 2018/19 show a remaining budget gap of approximately £8.5 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 2016/17 saw the UK vote to exit the European Union with a subsequent decrease in the Bank of England's Base Rate from 0.50% to 0.25%, the first movement in Base Rate since March 2009. The Council continues to mitigate any risks associated with the security of cash deposits through use of only institutions approved as counterparties in accordance with the Capita

credit scoring methodology 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.

## **Strategic Plans and Performance**

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

Taking into consideration the comparative quality of life of people living in Midlothian, it is clear that less well off residents experience poorer health, have fewer or no choices in how they use low incomes and also that there is a proven relationship between these factors and their learning. The top three priorities for 2016-19 and selected key performance measures for 2016/17 are:

### *Reducing the gap in learning outcomes*

- Average primary school attendance was 95%, up from 94.08% in 2015/16.
- Average secondary school attendance was 90.24%, up from 89.8% in 2015/16.
- There were 419 exclusions from school, down from 458 in 2015/16.
- The percentage of Midlothian residents with no qualifications was 6.4% against a target of 9.4%.

### *Reducing the gap in health outcomes*

- 395 mental health assessments were carried out through the new Gateway pilot project against a target of 200
- The percentage uptake of 27-30 month checks was 84.6% against a target of 86.7%

### *Reducing the gap in economic circumstances*

- The percentage of school leavers securing a positive destination was 95.1% against a target of 95%.
- Midlothian Citizen Advice Bureaux delivered income maximisation of £3.8 million against a target of £2.5 million.
- The percentage of young people working with the Homeless Prevention Service that went on to present as homeless was 33% against a target of 50%.

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

In addition to the three key priorities and three approaches the Council will also focus on reducing the gap between outcomes for residents living in parts of the county which for many years have shown a significant gap between their outcomes and the average outcomes for Midlothian and

Scotland as a whole. The areas targeted are Dalkeith Central/Woodburn; Mayfield/Easthouses and Gorebridge.

The Single Midlothian Plan incorporates five overarching thematic groups which support the achievement of outcomes. The thematic approach is used for quarterly performance reporting and the themes and selected performance measures for 2016/17 are discussed below.

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

- The percentage of people who say they are able to look after their health or who say they are as well as they can be was 83% compared to 83% in 2015/16
- The percentage of falls which resulted in hospital admission for clients aged 65+ was 5.03% compared to 4.79% in 2015/16 and a target of 10%
- The percentage of people who say that they have a say in the way their care is provided was 78% compared to 78% in 2015/16

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

- The proportion of MAPPA clients convicted of a Group 1 or Group 2 offence was 0% against a target of 2%
- The percentage of street light repairs completed within 7 days was 98.5% compared with 96.2% in 2015/16

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

- The number of children adopted was 11 compared with a target of 6
- The number of children in residential placements was 10 compared with a target of 12
- The increase in the number of children achieving the expected level in reading, writing and numeracy was 6% compared with a target of 2%

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

- The number of activities offered by Ageing Well programmes was 23 compared to a target of 16
- The Tonezone retention rate was 55.25% compared with a target of 55%

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

- The percentage of premises with access to next generation broadband was 98.1% compared with 78.5% in 2015/16 and a target of 98%
- The street cleanliness score was 97.5% compared with a target of 93%

During 2016/17 the Council demonstrated significant progress towards their priorities and this is documented in more detail in the Midlothian Council Annual Performance Report – 2016/17, presented to Performance Review and Scrutiny Committee on Tuesday 20<sup>th</sup> June 2017 and can be viewed on the Council website.

### **Structure of Council Leadership and Council Staff**

Throughout 2016/17 the political makeup of the Council was 8 Labour members, 8 SNP members, 1 Green party member and 1 independent member. The SNP together with the independent member had formed the administration until the later part of the year when this arrangement ended. At this point the SNP continued as a minority administration. During the year the Leader of the Council was Catherine Johnstone and the Provost was Joe Wallace. The Scottish local government elections took place on Thursday 4<sup>th</sup> of May 2017. The political makeup of the Council changed to 7 Labour members, 6 SNP members and 5 Scottish Conservative and Unionist members. A new minority administration was formed by the Labour Party with the Leader of the Council being Derek Milligan and the Provost being Adam Montgomery. The Council's Chief Executive is Kenneth Lawrie and it is structured in 3 Directorates:

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

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

Moving into 2017/18 and beyond the Council will continue the application of the Delivering Excellence framework – A programme for change which looks at how we do things, with a focus on improving outcomes for our residents and our communities within the context of the financial and other challenges ahead. To do this, we consider:

- What our priorities are;
- What we can change or do differently;
- Which services can be improved;
- Which services we can stop.

Employee engagement and empowerment is at the core of the Delivering Excellence framework with every council service being asked to look at what it does, how much it costs, how it performs and how it could be changed and improved. A key element of the framework is how we engage with our communities to inform and support changing the way we do things at Midlothian Council and ensure that services are fit for the future. We want residents to tell us what the priorities are for them, their families and their communities - and we want them to help us reshape our services to meet those priorities.

Health and Social Care Integration continues to move forward with consultation on the 2017-18 Directions document issued to NHS Lothian and the Council and work on a refreshed strategic plan is underway. Two Heads of Service with responsibility for Primary Care and Older People and Adult Services now manage services across health and social care and whilst work is underway to review the management structure, integration at a service level is progressing with for example nurses appointed to work in Newbyres Care Home. There is a continuing requirement to seek major efficiencies despite the growing demand, particularly in relation to older people and

those with complex needs. The move towards an integrated budget through the establishment of the Integration Joint Board provides an opportunity to make better use of collective resources.

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

The construction of the new Newbattle Community Campus commenced in January 2016 and continues on programme and on budget for an opening in May 2018. This new facility will provide enhanced educational and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities. New primary schools in Roslin and Loanhead were opened in August 2017.

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

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

## **Conclusion**

2016/17 was a challenging year from a financial perspective, with continued demand pressures and reduced funding being the dominant issues. Despite this the Council continues to invest for the future in its asset base, particularly to provide the essential infrastructure to support the growing population. Very significant financial and service challenges lie ahead and work continues to prepare for these and to deliver a Financial Strategy that ensures the Council's financial sustainability.

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

**Signed:**

**Gary Fairley**

**Head of Finance and Integrated Service Support**

**Date:**

## Statement of Responsibilities for the Financial Statements

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

### The Council'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.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- To approve the Statement of Accounts.

I confirm that these Annual Accounts were approved for signature by Midlothian Council Audit Committee at its meeting on the 26<sup>th</sup> of September 2017.

Signed on behalf of Midlothian Council

Councillor Derek Milligan

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

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

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

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

The Head of Finance and Integrated Service Support has also:

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

These Financial Statements present a true and fair view of the financial position of the Council at 31 March 2017 and its income and expenditure for the year then ended.

**Signed:**

**Gary Fairley**

**Head of Finance and Integrated Service Support**

**Date:**

## Annual Governance Statement

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

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

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 and guidance on Delivering Good Governance in Local Government: Framework (2016). The Code has been reviewed and updated in line with the new International Framework of Good Governance in the Public Sector which was implemented on 1 April 2017. The Council also has a number of officials in statutory posts who monitor governance and the supporting processes during the year. These are the Head of the Paid Service, the Monitoring Officer, the Chief Finance Officer and the Chief Social Work Officer.

The Code of Corporate Governance details 7 core principles which are supported by 20 sub-principles and 91 behaviours and actions that demonstrate good Governance. A draft copy of the revised Local Code of Corporate Governance is pending approval by the Council. Elements of good governance included are:

- Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the Council;
- Creating the conditions to ensure that the statutory officers, other key post holders, and members, are able to fulfil their responsibilities in accordance with legislative and regulatory requirements;
- Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear;
- Developing formal and informal partnerships to allow resources to be used more efficiently and outcomes achieved more effectively;
- Establishing a clear policy on the type of issues that the Council will meaningfully consult with or involve communities, individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes;
- Having a clear vision, which is an agreed formal statement of the Council's purpose and intended outcomes containing appropriate performance indicators, which provide the basis for the Council's overall strategy, planning and other decisions;
- Considering and balancing the combined economic, social and environmental impact of policies and plans when taking decisions about service provision;
- Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and associated risks. Therefore ensuring best value is achieved however services are provided;



- Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets;
- Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints;
- Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources;
- Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained;
- Implementing robust and integrated risk management arrangements and ensuring that they are working effectively;
- Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the Council's financial, social and environmental position and outlook;
- Aligning the risk management strategy and policies on internal control with achieving objectives ;
- Evaluating and monitoring risk management and internal control on a regular basis;
- Ensuring effective counter fraud and anti-corruption arrangements are in place;
- Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor;
- Ensuring an audit committee or equivalent group/ function, which is independent of the executive and accountable to the governing body: provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment and that its recommendations are listened to and acted upon;
- Ensuring financial management supports both long term achievement of outcomes and short-term financial and operational performance;
- Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on the assessment, including an action plan for improvement and evidence to demonstrate good governance (the annual governance statement); and
- Ensuring that recommendations for corrective action made by external auditor are acted upon.

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

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

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

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

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

Neither of these assessments highlighted any issues that would impact on the level of effectiveness of the Council's governance framework. A small number of improvements were identified and these are noted below in the action plan.

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's overall Audit Opinion for the Annual Governance Statement is included within the Internal Audit Annual Assurance Report for 2016/17 and concludes that overall the Council's framework of governance, risk management and internal control over the period 2016/17 are of a satisfactory standard and have been implemented and are monitored by management in line with Financial Directives, Council Policy and the other key essentials of a robust Internal Control Environment.

The programme of Internal Audit work undertaken in respect of 2016/17 was sufficient in breadth and depth to allow a robust and balanced opinion to be formed.

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

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

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment be conducted at least once every 5 years by a qualified, independent assessor from outside the organisation over the level of compliance against PSIAS by the Internal Audit Section. An external assessment was not undertaken in 2016/17 but will be undertaken in 2017/18 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG). However, an assessment of Internal Audit's work is undertaken each year by the Council's external auditor as part of their annual audit. Their report in 2015/16 found this to be satisfactory.

A self evaluation of compliance with the Public Sector Internal Audit Standards by Midlothian Council's Internal Audit Section was undertaken by the Internal Audit Manager. This evaluation demonstrated that the key elements of the Standards were complied with during the year, but identified a small number of areas where performance could be improved. An action plan has been developed to address these issues and the majority have already been acted upon.

A number of risks were effectively managed in 2016/17 and Midlothian Council continues to support the Integration Joint Board with its approach to risk management.

A number of governance improvements were highlighted in the 2015/16 self assessment and progress has been made in 2016/17 on the following:

Area for Improvement identified in 2015/16	Action Undertaken in 2016/17
<b>Key priorities and Financial Strategy</b> To continue to progress the Council's key priorities and deliver the Financial Strategy	A Financial Strategy update, including recommendations for the 2017/18 budget was considered by Council on 7 February 2017. Action is ongoing to develop the longer term financial strategy and develop a change programme to address the identified financial challenge. As part of this work, updates are provided through regular reports to Council.
<b>Procurement</b> To update all procedures and processes to comply with the new procurement legislation	Procedures and processes have been updated for all legislative changes that have taken place in the last year.
<b>Compliance with new Code of Corporate Governance</b> Updating the Code of Corporate Governance to allow full compliance with the new International Framework of Good Governance in the Public Sector	Following implementation of the framework with effect from 1 April 2017 this action has been addressed and a draft revised Code of Corporate Governance is currently pending approval.
<b>Standing Orders</b> Updates are required to Standing Orders and the associated documents (Scheme of Administration and Scheme of Delegation) caused by the recent management review and subsequent changes to the Council Directorates	The review of Standing Orders and associated documents was presented and approved by Council in September 2016.
<b>Compliance against the new CIPFA code of practice on Fraud and Corruption</b> Review the current Counter Fraud Policy and Strategy, Whistle-blowing Policy and create a separate Anti-bribery and Corruption Policy to allow full compliance against the new CIPFA code of practice on "Managing the Risk of Fraud and Corruption"	Partially complete. Policies updated and approved by the Audit Committee in December 2016. Still to be approved by Cabinet.
<b>Serious Organised Crime and Corruption</b> Undertake a high level assessment of the Council's readiness in relation to the risks posed by Serious Organised Crime and Corruption. An improvement plan for recording, managing, and addressing areas of potential risk exposure has been developed and an Integrity Board will be convened to take this forward.	The Serious and Organised Crime Integrity Group has been established for Midlothian with a range of partners. The group focuses on the principles of the national agenda to deter, disrupt, divert and deter criminality and potential areas of activity. A parallel Prevent Strategy group is also focussed on the counter terrorism agenda. The Council is working closely with Police Scotland and is represented on the Police Division Serving Organised Crime Group.
<b>Disaster recovery plans</b> Ensure that disaster recovery plans have been adequately tested and to monitor the on-going testing of these.	This action remains an area for improvement following the return of the annual assurance questionnaires completed by Heads of Service, however a new Business Continuity Policy

Area for Improvement identified in 2015/16	Action Undertaken in 2016/17
	incorporating consideration of disruptions to service through impacts on buildings, people, system, and infrastructure etc has been drafted and is scheduled to be presented to CMT for approval.
<b>Adoption of audit recommendations</b> To adopt the recommendations made by Internal Audit on the areas where significant weaknesses in control have been identified during the year (including Developer Contributions and Business Gateway)	Internal Audit periodically reviews whether recommendations have been implemented and reports the outcome of this to the Corporate Management Team and the Audit Committee. A review of overdue recommendations was undertaken in December 2016 and in June 2016 a sample of 40 recommendations recorded as 'completed' by management were reviewed to confirm the adequacy of the actions taken. This confirmed that management have acted on Internal Audit recommendations and therefore controls have been strengthened. This exercise will be repeated in 2017 and the results will be reported to the Audit Committee.
<b>Brexit</b> To consider the effects on the Council if Article 50 of the Treaty on the European Union is triggered and to consider plans to ensure the Council's readiness and to minimise risk to the Council in terms of the resultant changes to procurement, data protection, planning, environmental legislation, employment law and grant funding.	A report to Council in November 2016 set out an initial assessment of the impact on Midlothian of the decision to leave the European Union. It concentrated on the loss of European Union grant aid, leaving wider questions of economic and social policy impact for a later report when it is clearer what the new relationship with the European Union will be. The Quarter 4 2016/17 Strategic Risk Register will also include some initial analysis of the potential impact on the Council from the triggering of Article 50, this will clarify as negotiations progress at a UK level and the final agreement is reached.

Those actions which are underway but which have not yet been fully concluded will continue to be progressed in 2017/18.

The following table sets out improvements to the governance framework which are to be progressed in 2017/18:

Area for Improvement	Proposed Action in 2017/18
Code of Corporate Governance	Midlothian Council's Code of Corporate Governance has been updated but this is still in draft and requires approval by Council.
Workforce Plans	Draft workforce plans have been developed but they require updating and a Council wide plan is required.
Post Project Implementation Reviews	Although end of project post implementation reviews are completed for some projects, these are required to be completed for all projects.
Business Continuity Policy	The Council's current Incident Response Plans focus heavily on disruption to service delivery associated with building availability. A Business Continuity Policy, detailing the Council's approach to ensuring

Area for Improvement	Proposed Action in 2017/18
	critical services and outcomes can be delivered during periods of business disruption, has been created and once approved by CMT, training and Business Continuity Plans will be rolled out across the Council.
Register of Interests	A Register of Interests for Council Officials requires further development.
Gifts and Hospitality	A standalone Gifts and Hospitality policy requires to be developed.
Internal Audit Plan	The service review of Internal Audit should be completed and any subsequent changes to the Internal Audit Plan (if any) require approval by the Audit Committee.

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:**

**Derek Milligan, Leader of the Council / Kenneth Lawrie, Chief Executive**

**Date:**

## Remuneration Report

The Remuneration Report provides details of the Council's remuneration policy for its senior employees and senior councillors and states how 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 2016/17;
- 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 Ernst & Young LLP and all other sections of the Remuneration Report will be reviewed to ensure that they are consistent with the financial statements.

### Employees Remuneration Policy

The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. For 2016/17 the salaries of the Directors were 87% of the Chief Executive's salary.

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

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

### Councillors Remuneration Policy

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

The salary that is to be paid to the Leader of the Council is set out in the regulations and for 2016/17 this was £28,157. 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 2016/17 was £21,118.

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 £147,548. 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 the remainder of this sum after the Provost remuneration equally and pay each of the 6 senior councillors a salary of £21,072.

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 Scheme. The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice-Convener of a Joint Board.

## Pension Entitlement

The Council's senior employees and senior councillors can participate in the Local Government Pension Scheme administered by the Lothian Pension Fund. This is an average salary pension scheme which means that pension benefits are based on an average of the pay over the number of years that a person has been a member of the scheme. The scheme's normal retirement age for employees is 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 2016/17 remain at the 2015/16 rates, and are as follows:

<b>Actual Pensionable Pay</b>	<b>Contribution rate (%)</b>
On earnings up to and including £20,500	5.5%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.5%
On earnings above £34,400 and up to £45,800	9.5%
On earnings above £45,800	12%

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

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

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

### **Remuneration by Pay Band**

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



Total Employees	Remuneration Band	Non- Teaching Employees	Teaching Employees	Total Employees
2015/16		2016/17	2016/17	2016/17
56	£50,000 - £54,999	18	51	69
25	£55,000 - £59,999	14	12	26
5	£60,000 - £64,999	4	4	8
4	£65,000 - £69,999	4	3	7
7	£70,000 - £74,999	2	2	4
4	£75,000 - £79,999	6	1	7
0	£80,000 - £84,999	0	0	0
1	£85,000 - £89,999	0	1	1
0	£90,000 - £94,999	0	0	0
3	£95,000 - £99,999	3	0	3
0	£100,000 - £104,999	0	0	0
0	£105,000 - £109,999	0	0	0
0	£110,000 - £114,999	0	0	0
1	£115,000 - £119,999	1	0	1
<b>106</b>	<b>TOTAL</b>	<b>52</b>	<b>74</b>	<b>126</b>

## Exit Packages by Band

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

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

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

<b>Number of Employees</b>	<b>Total Cost £000</b>	<b>Package Band</b>	<b>Number of Employees</b>	<b>Total Cost £000</b>
<b>2015/16</b>	<b>2015/16</b>		<b>2016/17</b>	<b>2016/17</b>
15	190	£0 - £19,999	1	17
24	713	£20,000 - £39,999	3	91
8	454	£40,000 +	5	351
<b>47</b>	<b>1,357</b>	<b>TOTAL</b>	<b>9</b>	<b>459</b>

## Remuneration paid to Senior Employees

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

**For year to 31 March 2016**

**For year to 31 March 2017**

<b>Total Remuneration</b>	<b>Name and Post Title</b>	<b>Salary, Fees &amp; Allowances</b>	<b>Non Cash Benefits</b>	<b>Total Remuneration</b>
£112,887	K Lawrie, Chief Executive	£114,015	-	£114,015
£4,174	K Lawrie, Returning Officer	£5,485	-	£5,485
£98,531	J Blair, Director Resources	£95,186	£4,146	£99,332
£49,176	E McHugh, Joint Director Health & Social Care (1)	£49,668	-	£49,668
£98,353	M Smith, Director Education, Communities and Economy	£99,336	-	£99,336
£76,386	G Fairley, Head of Finance & ISS	£73,524	£3,586	£77,110
	G Vickers Head of Education (2)	£73,149	£3,430	£76,579
£53,107	A Turpie, Legal Services Manager	£52,936	-	£52,936
<b>£492,614</b>	<b>Total</b>	<b>£563,299</b>	<b>£11,162</b>	<b>£574,461</b>

## Pension Entitlement of Senior Employees

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

For year to 31 March 2016	Name and Post Title	For year to 31 March 2017
£21,850	K Lawrie, Chief Executive	£23,176
£843	K Lawrie, Returning Officer	£1,108
£19,037	J Blair, Director Resources	£19,228
£9,519	E McHugh, Joint Director Health & Social Care (1)	£9,614
£19,037	M Smith, Director Education, Communities and Economy	£19,228
£14,704	G Fairley, Head of Finance & Integrated Service Support	£14,852
	G Vickers	
0	Head of Education (2)	£14,420
£10,279	A Turpie, Legal Services Manager	£10,693
<b>£95,269</b>	<b>Total</b>	<b>£112,319</b>

- 1 Post joint funded 50:50 with NHS Lothian. Full time equivalent salary £99,336. Full time equivalent employer's pension contributions £19,228.
- 2 The role of Chief Education Officer was created by the Education (Scotland) Act 2016 and effective from 01/04/2016

## Accrued Pension Benefits

Name and Post Title	As at 31 March 2017		Difference from 31 March 2016	
	Pension £000	Lump Sum £000	Pension £000	Lump Sum £000
K Lawrie, Chief Executive	37	62	3	1
J Blair, Director Resources	44	91	3	1
E McHugh, Joint Director Health & Social Care	43	90	2	1
M Smith, Director Education, Communities & Economy	28	43	3	1
G Fairley, Head of Finance & ISS	34	71	2	1
G Vickers, Head of Education	3	0	0	0
A Turpie, Legal Services Manager	22	44	2	1
<b>Total</b>	<b>211</b>	<b>401</b>	<b>15</b>	<b>6</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.

### For year to 31 March 2016

### For year to 31 March 2017

Total					Total
Remuneration	Name	Salary	Expenses	Remuneration	
£2,981	O Thompson, Leader (1)	0	£143	£143	
£26,777	C Johnstone, Senior Councillor/Leader (1)	£28,157	£30	£28,187	
£21,020	B Constable, Depute Leader	£21,072	£175	£21,247	
£21,185	J Wallace, Provost	£21,118	£179	£21,297	
£21,073	A Coventry, Depute Provost	£21,072	£203	£21,275	
£21,516	J Bryant, Senior Councillor	£21,072	£176	£21,248	
£21,319	D Rosie, Senior Councillor	£21,072	£764	£21,836	
£10,981	K Parry, Senior Councillor (2)	£21,072	£0	£21,072	
£21,396	D Milligan, Opposition Leader	£21,072	£507	£21,579	
£0	M Russell (3)	£2,917	£162	£3,079	
<b>£168,248</b>	<b>Total</b>	<b>£178,624</b>	<b>£2,339</b>	<b>£180,963</b>	

The Council paid £0.342 million (2015/16 £0.333 million) salaries to Councillors and expenses of £0.004 million (2015/16 £0.005 million). The annual return of Councillor's salaries and expenses is available on the Council Website.

## Pension Entitlement of Senior Councillors

### In-year employer's pension contributions

For year to		For year to
31 March 2016	Name	31 March 2017
£4,214	B Constable, Depute Leader	£3,631
£4,224	J Wallace, Provost	£3,639
£4,214	D Rosie, Senior Councillor	£3,631
-	C Johnstone, Senior Councillor/Leader (1)	£4,048
£4,214	A Coventry, Depute Provost	£3,631
£2,218	K Parry, Senior Councillor (2)	£4,257
<b>£19,084</b>	<b>Total</b>	<b>£22,837</b>

- 1 O Thompson stood down as Council Leader on 8<sup>th</sup> May 2015, being replaced by C Johnstone. Full time equivalent salary for the Council Leader £27,878 for 2015/16.
- 2 K Parry was elected to Council and took up the post of Senior Councillor 11<sup>th</sup> September 2015. Full time equivalent salary £20,863 for 2015/16.
- 3 M Russell was appointed Vice Convenor of the Lothian Valuation Joint Board from the 6th of February 2017, full remuneration for the year was £17,374.

### Accrued Pension Benefits as at 31 March 2017

Name and Post Title	As at		Difference from	
	31 March 2017		31 March 2016	
	Pension	Lump Sum	Pension	Lump Sum
	£000	£000	£000	£000
B Constable, Depute Leader	3	1	0	0
J Wallace, Provost	2	0	0	0
D Rosie, Senior Councillor	2	0	0	0
C Johnstone, Senior Councillor	2	0	0	0
A Coventry, Depute Provost	2	0	1	0
K Parry, Senior Councillor	0	0	0	0
<b>Total</b>	<b>11</b>	<b>1</b>	<b>1</b>	<b>0</b>

**Signed:**

**Derek Milligan**  
Leader of the Council

**Kenneth Lawrie**  
Chief Executive

**Date:**

## Expenditure and Funding Analysis

### For the year ended 31 March 2017

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

32	2015/16	2015/16	2015/16		2016/17	2016/17	2016/17
	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between the funding and accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Service	Net expenditure chargeable to the General Fund and HRA balances	Adjustments between the funding and accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
	£000	£000	£000		£000	£000	£000
	1,605	88	1,694	Management	1,574	146	1,721
	15,677	-109	15,568	Children's Services	15,431	509	15,940
	3,835	407	4,242	Communities and Economy	4,334	690	5,024
	68,045	14,196	82,242	Education	75,810	21,129	96,939
	36,893	965	37,857	Adult Social Care	38,237	1,596	39,833
	7,323	472	7,795	Customer and Housing Services	5,305	441	5,746
	14,704	5,484	20,188	Commercial Services	15,850	6,151	22,001
	16,088	-10	16,078	Finance and Integrated Service Support	11,159	375	11,534



13,536	3,804	17,339	Properties and Facilities Management	13,943	5,740	19,683
-16,431	15,565	-866	Housing Revenue Account	-13,621	13,102	-519
560	0	560	Joint Boards	560	0	560
1,500	-92	1,409	Non-Distributed Costs	1,407	42	1,449
<b>163,335</b>	<b>40,770</b>	<b>204,106</b>	<b>Net Cost of Services</b>	<b>169,989</b>	<b>49,921</b>	<b>219,911</b>
8,866	-8,035	831	Other Income and Expenditure	8,002	-9,857	-1,855
12,556	3,771	16,328	Financing and Investment Income and Expenditure	12,477	2,437	14,915
-191,605	-22,627	-214,232	Taxation and non-specific grant income	-188,336	-14,229	-202,565
<b>-6,848</b>	<b>13,879</b>	<b>7,032</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>2,132</b>	<b>28,272</b>	<b>30,406</b>
<b>42,691</b>			<b>Opening General Fund and HRA Balance</b>	<b>49,538</b>		
<b>-6,847</b>			<b>Less/Plus (Surplus) or Deficit on General Fund and HRA Balance in year</b>	<b>2,132</b>		
<b>49,538</b>			<b>Closing General Fund and HRA Balance at 31 March 2017</b>	<b>47,406</b>		

## Movement in Reserves Statement

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

34

2015/16 – Previous year comparison (restated)	Note / source	General Fund Reserve	HRA Balance	Capital Fund	Repairs and Renewals Fund	Total Usable Reserves	Unusable Reserves	Total Council Reserves
		£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 2015</b>		<b>(21,315)</b>	<b>(21,376)</b>	<b>(14,853)</b>	<b>(3,073)</b>	<b>(60,617)</b>	<b>(172,712)</b>	<b>(233,329)</b>
Total Comprehensive Expenditure and Income	CIES	(2,092)	9,124	0	0	7,032	(98,823)	(91,791)
Adjustments between accounting basis and funding basis under regulations	6	(1,752)	(12,661)	(525)	0	(14,937)	14,937	0
<b>Net increase/ (decrease) before transfers to other statutory reserves</b>		<b>(3,844)</b>	<b>(3,537)</b>	<b>(525)</b>	<b>0</b>	<b>(7,906)</b>	<b>(83,885)</b>	<b>(91,791)</b>
Transfers to/(from) other statutory reserves		<b>534</b>	<b>0</b>	<b>0</b>	<b>-534</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Increase/(Decrease) in year</b>		<b>(3,310)</b>	<b>(3,537)</b>	<b>(525)</b>	<b>(534)</b>	<b>(7,906)</b>	<b>(83,885)</b>	<b>(91,791)</b>
<b>Balance at 31 March 2016</b>		<b>(24,625)</b>	<b>(24,913)</b>	<b>(15,378)</b>	<b>(3,607)</b>	<b>(68,523)</b>	<b>(256,598)</b>	<b>(325,121)</b>

<b>2016/17 – Current Financial Year</b>	<b>Note / source</b>	<b>General Fund Reserve</b>	<b>HRA Balance</b>	<b>Capital Fund</b>	<b>Repairs and Renewals Fund</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Total Council Reserves</b>
		£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 1 April 2016</b>		<b>(24,625)</b>	<b>(24,913)</b>	<b>(15,378)</b>	<b>(3,607)</b>	<b>(68,523)</b>	<b>(256,598)</b>	<b>(325,121)</b>
Total Comprehensive Expenditure and Income	CIES	20,972	9,434	5,778	0	<b>36,184</b>	<b>23,317</b>	<b>59,501</b>
Adjustments between accounting basis and funding basis under regulations	6	(13,492)	(14,275)	(7,106)	0	(34,873)	34,873	0
<b>Net increase/ (decrease) before transfers to other statutory reserves</b>		<b>7,480</b>	<b>(4,841)</b>	<b>(1,328)</b>	<b>0</b>	<b>1,311</b>	<b>58,190</b>	<b>59,501</b>
Transfers to/(from) other statutory reserves		-507	0	0	507	0	0	0
<b>Increase/(Decrease) in year</b>		<b>6,973</b>	<b>(4,841)</b>	<b>(1,328)</b>	<b>507</b>	<b>1,311</b>	<b>58,190</b>	<b>59,501</b>
<b>Balance at 31 March 2017</b>		<b>(17,651)</b>	<b>(29,754)</b>	<b>(16,706)</b>	<b>(3,100)</b>	<b>(67,211)</b>	<b>(198,408)</b>	<b>(265,620)</b>

## Comprehensive Income and Expenditure Statement

### For the year ended 31 March 2017

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

Following clarification within the Cipfa Code of Practice on Local Authority Accounting over the recognition of capital grants, the Council has represented the 2015/16 figures to ensure these are consistent each year. £22.627 million of capital grant income previously recognised in service income has been reflected in grant income for 2015/16. This results in a decrease in net costs of service but has no impact on total operating income and expenditure or general fund.

36

Restated	Restated	Restated			2016/17	2016/17	2016/17
2015/16	2015/16	2015/16					
Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
£000	£000	£000	Service	Notes	£000	£000	£000
1,758	-64	1,694	Management		£ 1,787	-66	1,721
15,660	-92	15,568	Children's Services		£ 16,079	-139	15,940
6,371	-2,129	4,242	Communities and Economy		£ 6,996	-1,972	5,024
83,964	-1,722	82,242	Education		£ 98,842	-1,903	96,939
52,305	-14,448	37,857	Adult Social Care		£ 95,628	-55,795	39,833
39,233	-31,438	7,795	Customer and Housing Services		£ 36,730	-30,984	5,746
22,151	-1,963	20,188	Commercial Services		£ 24,051	-2,050	22,001

Restated 2015/16 Gross Expenditure £000	Restated 2015/16 Gross Income £000	Restated 2015/16 Net Expenditure £000	Service	Notes	2016/17 Gross Expenditure £000	2016/17 Gross Income £000	2016/17 Net Expenditure £000
16,319	-241	16,078	Finance and Integrated Service Support		£ 11,886	-352	11,534
24,650	-7,311	17,339	Properties and Facilities Management		£ 27,173	-7,490	19,683
23,580	-28,345	-4,764	Housing Revenue Account		£ 30,739	-31,258	-519
560	0	560	Joint Boards		£ 560	0	560
1,409	0	1,409	Non-Distributed Costs	7	£ 1,449	0	1,449
<b>287,960</b>	<b>-87,753</b>	<b>200,208</b>	<b>Cost of Services</b>		<b>351,920</b>	<b>-132,009</b>	<b>219,911</b>
		831	Other Operating Expenditure	8			(1,855)
		16,328	Financing and Investment Income and Expenditure	9			14,915
		(210,334)	Taxation and non-specific grant income	10			(202,565)
		<b>7,032</b>	<b>(Surplus) or Deficit on Provision of Services</b>				<b>30,406</b>
		(41,027)	(Surplus) or Deficit on revaluation of non-current assets				(15,364)
		(55,787)	Re-measurement of the net defined benefit liability	33			44,365
		(2,009)	Other (Gains) / Losses				95
		<b>(98,823)</b>	<b>Other Comprehensive (Income) and Expenditure</b>				<b>29,096</b>
		<b>(91,791)</b>	<b>Total Comprehensive (Income) and Expenditure</b>				<b>59,502</b>

## Balance Sheet

### As at 31 March 2017

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".

31 March 2015	31 March 2016			31 March 2017
£000	£000		Notes	£000
611,295	640,904	Property, Plant and Equipment	11	651,696
1,187	1,073	Intangible Assets	12	766
26	27	Heritage Assets	14	68
3,382	5,189	Long Term Investments	16	4,935
3,073	3,639	Long Term Debtors	17	3,136
<b>618,963</b>	<b>650,832</b>	<b>Long Term Assets</b>		<b>660,601</b>
40,152	55,007	Short Term Investments	15	65,072
800	2,535	Assets held for Sale	13	1,950
987	826	Inventories		811
20,658	18,292	Short Term Debtors	17	19,641
14,337	10,710	Cash and Cash Equivalents	18	10,894
<b>76,934</b>	<b>87,370</b>	<b>Current Assets</b>		<b>98,368</b>
44,237	41,073	Short Term Borrowing	15	51,270
25,468	23,747	Short Term Creditors	19	28,998
1,750	1,640	Provisions	20	1,431
18,049	16,395	Grants Receipts in Advance	28	22,944
<b>89,504</b>	<b>82,855</b>	<b>Current Liabilities</b>		<b>104,643</b>
193,143	198,917	Long Term Borrowing	15	208,816
179,921	131,309	Other Long Term Liabilities	21	179,892
<b>373,064</b>	<b>330,226</b>	<b>Long Term Liabilities</b>		<b>388,707</b>
<b>233,329</b>	<b>325,121</b>	<b>Net Assets</b>		<b>265,619</b>
60,617	68,523	Usable Reserves	6&22	67,211
172,712	256,598	Unusable Reserves	23	198,408
<b>233,329</b>	<b>325,121</b>	<b>Total Reserves</b>		<b>265,619</b>

Gary Fairley, Head of Finance and Integrated Service Support

Unaudited Accounts were authorised for issue on 27<sup>th</sup> June 2017 and the audited accounts were authorised for issue on 28<sup>th</sup> September 2017.

## Cash Flow Statement

For the year ended 31 March 2017

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.

2015/16			2016/17
£000	Revenue Activities	Notes	£000
<b>(7,032)</b>	<b>Net surplus or (deficit) on the provision of services</b>		<b>(30,406)</b>
	Adjustment to surplus or deficit on the provision of services		
45,672	for non cash movements	24	64,498
	Adjust for items included in the net surplus or deficit on the		
15,005	provision of services that are investing and financing activities	24	13,172
<b>53,645</b>	<b>Net Cash Flows From Operating Activities</b>		<b>47,264</b>
(58,717)	Net cash flows from investing activities	25	(65,902)
1,445	Net cash flows from financing activities	26	18,822
<b>(3,627)</b>	<b>Net Increase or Decrease in Cash and Cash Equivalents</b>		<b>184</b>
14,337	Cash and cash equivalents at the beginning of the reporting period		10,710
<b>10,710</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>10,894</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 summarise the Council's transactions for the 2016/17 financial year and its position as at 31 March 2017. 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 2016/17 (The Code) and the Service Reporting Code of Practice 2016/17 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government in Scotland Act 2003.

#### Accounting Concepts and Principles

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

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

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

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

Faithful representation has three characteristics:

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



## **1.2 Summary of Significant Accounting Policies**

### **1.2.1 Accruals of Income and Expenditure**

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from the provision of services is recognised when the Council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council;
- Revenue from Council Tax and Non Domestic Rates is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably. Revenue is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **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

A prior period adjustment has been made in 2016/17 relating to the liability the Council has to the Scottish Government for contributions towards the Borders Railway. This is now recognised as a long term liability of £8.193 million in Balance Sheets as at 31<sup>st</sup> March 2015, 31<sup>st</sup> March 2016 and 31<sup>st</sup> March 2017 with a corresponding reduction in the Capital Adjustment Account.

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

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

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

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

### 1.2.4 Employee Benefits

#### *Benefits Payable during Employment*

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

#### *Termination Benefits*

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

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

## *Post Employment Benefits*

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

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

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

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

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

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

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked;
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs;

- Net interest on the net defined liability (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.;
- The return on plan assets – excluding amounts included in net interest on the net defined liability (asset) – charged to the pensions reserve as other comprehensive income and expenditure;
- Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as other comprehensive income and expenditure;;
- Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

#### 1.2.5 Events After the Balance Sheet Date

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Financial Statements are authorised for issue. Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the Financial Statements.

#### 1.2.6 Financial Instruments

##### *Financial Liabilities*

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability,

multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund or HRA Balances to be spread over future years. The Council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid.

The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

### *Financial Assets*

Financial assets are classified into two types:

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

### *Loans and Receivables*

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

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

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

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

#### *Available for Sale Assets*

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

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

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

#### 1.2.7 Interests in Companies and Other Entities

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

#### 1.2.8 Long Term Contracts

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

#### 1.2.9 Property, Plant and Equipment

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

## *Recognition*

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

## *Measurement*

Assets are initially measured at cost, comprising:

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

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

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

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

- Council Houses are valued using the Beacon principle based on valuations carried out by the Council's Property Investment Manager. The main valuation basis used in is existing use – social housing. Gross valuations are reduced by applying a discount factor which is designed to reflect that houses are only available for social use. Any new build housing and newly purchased houses are valued at historic cost;
- Land and operational properties, including schools, have been valued at current value, determined as the amount that would be paid for an asset in its existing use;
- Community and Infrastructure assets are valued at depreciated historic cost;
- Vehicles, Plant and Equipment have been valued at depreciated historic cost;
- Assets Under Construction are held at historic cost;
- Surplus Assets are valued at open market value;
- Heritage Assets are valued at insurance replacement value where available, otherwise assets are held at depreciated historic cost since the cost of obtaining a valuation would outweigh the benefits to users of the financial statements.

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

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

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. As part of the Council's plan for revaluation, a move has been made to

revalue all items in a specific category in the same year, if one of the assets in the category has been re-valued. Increases in valuations are matched by credits to the Revaluation Reserve to recognise any unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss that has been previously charged to a service.

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

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

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

### *Impairment*

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

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

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

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

### *Depreciation*

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

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.

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

#### 1.2.10 VAT

Income and Expenditure excludes any amount relating to Value Added Tax (VAT), as all VAT 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 2017/18 Code.

The following Adopted International Financial Reporting Standards (IFRS) have been issued but have not been applied in these financial statements. Their adoption is not expected to have a material effect on the financial statements unless otherwise indicated.

IAS 26 Amendment to the reporting of pension scheme transaction costs.

IAS 26 Amendment to the reporting of investment concentration.

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

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

- There is a high degree of uncertainty about future levels of funding for Local Government, however, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close the facilities and to reduce levels of service provision.
- Accounting for public-private partnerships. The council is deemed to control the services provided under the agreement for the provision of educational establishments in accordance with IFRC12. The council controls the services provided under the scheme and ownership of the schools will pass to the council at the end of the contract. The schools are therefore recognised on the council's balance sheet.

## **4. Assumptions made about the future and other major sources of estimation uncertainty**

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

The items in the Council's Balance Sheet as at 31 March 2017 for which there is significant risk of material adjustment in the forthcoming year are as follows:

#### 4.1 Property, Plant and Equipment

##### *Uncertainties*

Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bring into doubt the useful lives assigned to assets.

##### *Effect if Actual Results Differ from Assumptions*

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £2.936 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 2017		
0.5% decrease in Real Discount Rate	11%	65,789
0.5% increase in the Salary Increase Rate	4%	22,136
0.5% increase in the Pension Increase Rate	7%	41,677

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

#### 4.2 Collectability of debtors

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

## 5. Note to the Expenditure and Funding Analysis

Adjustments between Funding and Accounting Basis				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes £000	Net change for the pension adjustments £000	Other Differences £000	2016/17 Total Adjustments £000
<b>Service</b>				
Management	71	35	41	147
Children's Services	136	187	186	509
Communities and Economy	440	133	117	690
Education	18,283	1,953	893	21,129
Adult Social Care	647	473	476	1,596
Customer and Housing Services	295	0	146	441
Commercial Services	5,472	351	328	6,151
Finance and Integrated Service Support	771	-695	299	375
Properties and Facilities Management	4,693	498	549	5,391
Housing Revenue Account	12,942	160		13,948
Joint Boards	0	0	0	0
Non-Distributed Costs	0		42	42
<b>Net Cost of Services</b>	<b>43,750</b>	<b>3,094</b>	<b>3,077</b>	<b>49,921</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>-24,078</b>	<b>2,437</b>	<b>-8</b>	<b>-21,649</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>19,672</b>	<b>5,531</b>	<b>3,069</b>	<b>28,272</b>

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement Amounts	Adjustments for Capital Purposes £000	Net change for the pension adjustments £000	Other Differences £000	2015/16 Total Adjustments
				£000
<b>Service</b>				
Management	71	47	-30	88
Children's Services	10	0	-119	-109
Communities and Economy	7	478	-78	407
Education	11,658	2,915	-377	14,196
Adult Social Care	628	644	-307	965
Customer and Housing Services	362	218	-108	472
Commercial Services	5,025	679	-219	4,475
Finance and Integrated Service Support	590	-369	-231	-10
Properties and Facilities Management	4,159	0	-356	3,803
Housing Revenue Account	15,565	0	0	15,565
Joint Boards	0	0	0	0
Non-Distributed Costs	0	0	-92	-92
<b>Net Cost of Services</b>	<b>38,075</b>	<b>4,612</b>	<b>-1,917</b>	<b>40,770</b>
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	<b>-26,884</b>	<b>0</b>	<b>-7</b>	<b>-26,891</b>
<b>Difference between General Fund Surplus or Deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b>	<b>11,191</b>	<b>4,612</b>	<b>-1,924</b>	<b>13,879</b>

## 6. Adjustments between accounting basis and funding 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.

	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>2015/16</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	(25,444)	(6,737)	0	0	<b>(32,181)</b>	<b>32,181</b>
Amortisation of intangible assets	(115)	0	0	0	<b>(115)</b>	<b>115</b>
Revaluation losses on PPE and assets held for sale	3,050	(8,827)	0	0	<b>(5,777)</b>	<b>5,777</b>
Net gain or loss on sale of non-current assets	(1,103)	273	0	0	<b>(831)</b>	<b>831</b>
Statutory Provision for the financing of capital investment	5,040	3,283	0	0	<b>8,323</b>	<b>(8,323)</b>
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>						
Application of grants to capital financing transferred to the CAA	22,627	0	0	0	<b>22,627</b>	<b>(22,627)</b>
<b>Adjustments primarily involving the Capital Fund</b>						
Disposal of Non-Current Assets / Capital Sales	0	0	0	(525)	<b>(525)</b>	<b>525</b>
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	(525)	525	<b>0</b>	<b>0</b>

**Adjustments involving the Financial Instruments Adjustment Account**

Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	7	0	0	0	7	(7)
---	---	---	---	---	---	-----

**Adjustments primarily involving the pensions reserve**

Reversal of items relating to retirement benefits debited or credited to the CIES	(19,530)	(653)	0	0	(20,183)	20,183
---	----------	-------	---	---	----------	--------

Employers Pension contributions and direct payments to pensioners payable in the year	11,800	0	0	0	11,800	(11,800)
---	--------	---	---	---	--------	----------

**Adjustments primarily involving the Employee Statutory Adjustment Account**

Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,917	0	0	0	1,917	(1,917)
---	-------	---	---	---	-------	---------

<b>Total Adjustments</b>	<b>(1,751)</b>	<b>(12,661)</b>	<b>(525)</b>	<b>0</b>	<b>(14,937)</b>	<b>14,937</b>
--------------------------	----------------	-----------------	--------------	----------	-----------------	---------------

	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>2016/17</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	-27,894	-7,098	0	0	<b>-34,992</b>	<b>34,992</b>
Amortisation of intangible assets	-187	0	0	0	<b>-187</b>	<b>187</b>
Revaluation losses on PPE and assets held for sale	-1,449	-12,388	0	0	<b>-13,836</b>	<b>13,836</b>
Net gain or loss on sale of non-current assets	51	1,804	0	0	<b>1,855</b>	<b>-1,855</b>
Statutory Provision for the financing of capital investment	4,840	3,661	0	0	<b>8,501</b>	<b>-8,501</b>
net revenue expenditure financed from capital under statute (REFFCUS)	-22	0	0	0	<b>-22</b>	<b>22</b>
<b>Adjustments primarily involving the Capital Grant Unapplied Account</b>						
Application of grants to capital financing transferred to the CAA	19,516	0	0	0	<b>19,516</b>	<b>-19,516</b>
<b>Adjustments primarily involving the Capital Fund</b>						
Disposal of Non-Current Assets / Capital Sales	0	0	-13,089	5,983	<b>-7106</b>	<b>7,106</b>
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	5,983	-5,983	<b>0</b>	<b>0</b>



**Adjustments involving the Financial Instruments  
Adjustment Account**

Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	8	0	0	0	8	(8)
---	---	---	---	---	---	-----

**Adjustments primarily involving the pensions reserve**

Reversal of items relating to retirement benefits debited or credited to the CIES	-17,729	-254	0	0	-17,983	17,983
---	---------	------	---	---	---------	--------

Employers Pension contributions and direct payments to pensioners payable in the year	12,452	0	0	0	12,452	-12,452
---	--------	---	---	---	--------	---------

**Adjustments primarily involving the Employee Statutory  
Adjustment Account**

Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	-3,077	0	0	0	-3,077	3,077
---	--------	---	---	---	--------	-------

<b>Total Adjustments</b>	<b>-13,492</b>	<b>-14,275</b>	<b>-7,106</b>	<b>0</b>	<b>-34,871</b>	<b>34,871</b>
--------------------------	----------------	----------------	---------------	----------	----------------	---------------

## 7. Non-distributable costs

2015/16		2016/17
£000		£000
1,409	Pension Costs	1,449
<b>1,409</b>	<b>Total Non-distributable Costs</b>	<b>1,449</b>

## 8. Other operating income and expenditure

2015/16		2016/17
£000		£000
831	(Surplus)/Deficit on sale of non current assets	(1,855)
<b>831</b>	<b>Total Other Operating Income and Expenditure</b>	<b>(1,855)</b>

## 9. Financing and investing income and expenditure

2015/16		2016/17
£000		£000
13,292	Interest payable and similar charges	13,983
3,771	Pension interest cost on defined benefit obligation and interest income on plan assets	2,437
(735)	Interest received and similar income	(1,505)
0	Investment Losses	0
<b>16,328</b>	<b>Total</b>	<b>14,915</b>

## 10. Taxation and specific grant income

2015/16		2016/17
£000		£000
35,364	Council Tax Income	36,415
32,821	Non Domestic Rates Income	31,945
123,420	Non-Specific Government Grants	119,976
18,729	Capital grants	14,229
<b>210,334</b>	<b>Total Taxation and Non-Specific Grant Income</b>	<b>202,565</b>

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

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

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation as 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>
Additions	6,084	3,104	0	2,896	4,017	0	15,352	21	31,474
Disposals	(1,792)	(1,282)	(558)	(1,099)	0	0	0	0	(4,731)
Reclassification	6,746	(704)	(1,285)	0	0	0	(6,392)	0	(1,635)
Revaluation to I&E	(8,783)	4,001	(876)	0	0	0	0	(119)	(5,777)
Revaluation to Revaluation Reserve	8	17,988	1,436	0	0	(206)	0	(1,205)	18,021
<b>Gross Book value at 31 March 2016</b>	<b>300,814</b>	<b>306,530</b>	<b>15,274</b>	<b>27,023</b>	<b>58,855</b>	<b>7,687</b>	<b>16,147</b>	<b>8,087</b>	<b>740,417</b>
<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>
Depreciation Charge for the Year	(6,643)	(19,805)	0	(2,602)	(3,077)	(55)	0	0	(32,182)
Disposals	222	313	0	998	0	0	0	0	1,533
Revaluation to Revaluation Reserve Depreciation	0	22,907	0	0	0	0	0	0	22,907
<b>Depreciation as at 31 March 2016</b>	<b>(26,653)</b>	<b>(23,501)</b>	<b>0</b>	<b>(17,737)</b>	<b>(31,348)</b>	<b>(276)</b>	<b>0</b>	<b>2</b>	<b>(99,513)</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>
<b>Net book value as at 31 March 2016</b>	<b>274,161</b>	<b>283,029</b>	<b>15,274</b>	<b>9,286</b>	<b>27,507</b>	<b>7,411</b>	<b>16,147</b>	<b>8,089</b>	<b>640,904</b>

	Houses	Buildings	Land	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Cost or Valuation as at 31 March 2016</b>	<b>300,814</b>	<b>306,530</b>	<b>15,274</b>	<b>27,023</b>	<b>58,855</b>	<b>7,687</b>	<b>16,147</b>	<b>8,087</b>	<b>740,417</b>
Additions	8,170	2,447	35	3,207	3,628	346	31,229	26	49,088
Disposals	(4,422)	(214)	(315)	(1,050)	0	0	0	0	(6,001)
Reclassification	11,783	503	(5,720)	0	0	0	(5,866)	(700)	0
Revaluation to I&E	(11,542)	(292)	(2,600)	0	0	(11)	0	0	(14,445)
Revaluation to Revaluation Reserve	(846)	(7,191)	4,634	0	0	(363)	0	(1,400)	(5,166)
<b>Gross Book value at 31 March 2017</b>	<b>303,957</b>	<b>301,783</b>	<b>11,308</b>	<b>29,180</b>	<b>62,483</b>	<b>7,659</b>	<b>41,510</b>	<b>6,013</b>	<b>763,893</b>
<b>Depreciation as at 31 March 2016</b>	<b>(26,653)</b>	<b>(23,501)</b>	<b>0</b>	<b>(17,737)</b>	<b>(31,348)</b>	<b>(276)</b>	<b>0</b>	<b>2</b>	<b>(99,513)</b>
Depreciation Charge for the Year	(7,098)	(20,931)	0	(2,885)	(3,345)	(534)	0	(696)	(35,489)
Disposals	243	0	0	946	0	0	0	0	1,189
Reclassification	0	0	0	0	0	0	0	0	0
Revaluation to I&E Depreciation	0	457	0	0	0	0	0	650	1,107
Revaluation to Revaluation Reserve Depreciation	133	20,046	0	0	0	330	0	0	20,509
<b>Depreciation as at 31 March 2017</b>	<b>(33,375)</b>	<b>(23,929)</b>	<b>0</b>	<b>(19,676)</b>	<b>(34,693)</b>	<b>(480)</b>	<b>0</b>	<b>(44)</b>	<b>(112,197)</b>
<b>Net book value as at 31 March 2016</b>	<b>274,161</b>	<b>283,029</b>	<b>15,274</b>	<b>9,286</b>	<b>27,507</b>	<b>7,411</b>	<b>16,147</b>	<b>8,089</b>	<b>640,904</b>
<b>Net book value as at 31 March 2017</b>	<b>270,582</b>	<b>277,854</b>	<b>11,308</b>	<b>9,504</b>	<b>27,790</b>	<b>7,179</b>	<b>41,511</b>	<b>5,969</b>	<b>651,696</b>

## 12. 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 £1.595 million (2015/16 £1.429 million). This cost is being written off over 3 or 5 years depending on the life of the licence. A total of £1.174 million has been written off (2015/16 £0.987 million).

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. The Council is required to purchase allowances either prospectively or retrospectively, and surrender them on the basis of emissions. The Council currently holds £0.345 million of allowance as intangible assets (2015/16 £0.631 million), all of which were purchased as additions during 2014/15. £0.286 of the original allowances was surrendered in line with the scheme during the year.

2015/16		2016/17
£000		£000
<b>2,059</b>	<b>Gross carrying amount at start of year</b>	<b>2061</b>
(872)	Accumulated amortisation	(988)
<b>1,187</b>	<b>Net carrying amount at the start of year</b>	<b>1,073</b>
313	Additions – purchased	166
0	Disposals	0
(312)	Surrender of CRC Allowance	(286)
(115)	Amortisation	(187)
<b>1,073</b>	<b>Net Book Value at Year End</b>	<b>766</b>

### 13. Movement in assets held for sale

2015/16		2016/17
£000		£000
<b>800</b>	<b>Balance Outstanding as at 1 April</b>	<b>2,535</b>
1,635	Transfers from Non Current Assets during the year	0
100	Revaluations and Restatements	0
0	Additions	40
0	Impairments	0
0	Assets declassified as held for sale	0
0	Asset Disposal - Other	-625
<b>2,535</b>	<b>Balance Outstanding as at 31 March</b>	<b>1,950</b>

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

### 14. Heritage assets

The Council's chain of office is the main heritage asset and has been included in the Balance Sheet at reinstatement cost, obtained from the Council's insurer. There has been expenditure of £0.041 million on heritage assets. Heritage assets are valued at £0.068 million (2015/16 £0.027 million).

### 15. 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 2016

31 March 2017

Long Term	Current		Long Term	Current
£000	£000		£000	£000
<b>Financial Liabilities</b>				
198,917	41,073	External Borrowings at amortised cost	208,816	51,270
54,972	1,208	PPP Liability (see Note 33)	53,659	1,313
0	16,070	Creditors	0	15,960
<b>253,889</b>	<b>58,351</b>	<b>Total Financial Liabilities</b>	<b>262,475</b>	<b>68,543</b>
<b>Financial Assets</b>				
0	55,007	Loans and Receivables	0	65,072
5,189	0	Available-for-sale Financial Assets	4,935	0
0	10,710	Cash and Cash Equivalents (see Note 18)	0	10,894
0	10,363	Debtors	0	10,458
<b>5,189</b>	<b>76,080</b>	<b>Total Financial Assets</b>	<b>4,935</b>	<b>86,424</b>

Long Term borrowing as shown in the Balance Sheet of £208.816 million fully comprises principal to be repaid later than 12 months (PWLBS Maturity Loans of £187.225 million, PWLB Annuity Loans of £0.708 million, LOBO Loans of £20.606 million and Salix Loans of £0.277 million). Lender Option Borrower Options (LOBO's) of £20.606 million have been included in long term borrowing (inclusive of the Effective Interest Rate adjustment), this reflecting the contractual period to maturity for these instruments, given the unlikelihood of call within the next 12 months.

Short Term borrowing as shown in the Balance Sheet of £51.270 million comprises accrued interest of £2.169 million, the LOBO Effective Interest Rate adjustment to be amortised in 2017/18 of £0.008 million and principal to be repaid within 12 months of £49.093 million (£39.000 million Temporary Loans; £10.000 million PWLB Maturities; £0.062 million Salix Loan, £0.031 million PWLB Annuities).

## Gains and Losses on Financial Instruments

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

## Total Interest Income/Expense

Total interest income and total interest expense (calculated using the effective interest method) for financial assets and liabilities that are not at fair value through profit or loss for 2016/17 was £7.822 million [equating to £8.476 million interest paid on external borrowings less £0.654 million interest received on loans and receivables and cash and cash equivalents].

## Fee Income and Expense

Total fee expense for financial assets and liabilities that are not at fair value through profit or loss for 2016/17 was £0.107 million.



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

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

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

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

The rates quoted in this valuation were obtained by Capita, the Council's treasury management consultants, from the market on 31 March 2017.

The calculations are made with the following assumptions:

- Fair values have been calculated for all financial instruments in the portfolio;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.
- Interpolation techniques have been used between available rates where the exact maturity period was not available;
- The valuation of Loans Receivable is made by utilisation of the prevailing benchmark market rates;
- The valuation of fixed term deposits (maturity investments) is made by comparison of the fixed term investment with a comparable investment with the same/similar lender for the remaining period of the deposit;
- For PWLB debt, the discount rate used is:-
  - the "Standard New Loan Rate (net of certainty rate discount) for new borrowing ["Fair Value (New Loan)" column of table below]; and
  - the Premature Repayment Rate ["Fair Value (Premature Redemption)" column of table below]; as per rate sheet number 128/17 issued by PWLB on 31 March 2017;
- For Fixed Rate market debt the discount rate used is:-
  - the New market Loan Rate for an instrument with the same terms from a comparable lender ["Fair Value (New Loan)" column of table below]; and
  - the Premature Repayment Rate ["Fair Value (Premature Redemption)" column of table below]; as per rate sheet number 128/17 issued by PWLB on 31 March 2017;
- For non-fixed rate LOBO debt the discount rate used is:-
  - The relevant Gilt Rate plus 70 basis points ["Fair Value (New Loan)" column of table below]; and
  - the Premature Repayment Rate ["Fair Value (Premature Redemption)" column of table below]; as per rate sheet number 128/17 issued by PWLB on 31 March 2017; For PWLB debt, the discount rate used is:-

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

31 March 2016

31 March 2017

Carrying Amount	(a) Fair Value	(b) Fair Value	Liability	Principal Outstanding	Add LOBO Accounting Adjustment	Add Accrued Interest	Carrying Amount	(a) Fair Value (New Loan)	(b) Fair Value (Premature Redemption)
£000	£000	£000		£000	£000	£000	£000	£000	£000
181,804	215,897	249,548	PWLB	197,963	0	1,895	199,858	249,228	292,610
20,899	26,657	33,354	LOBO	20,000	614	271	20,885	31,707	38,458
36,886	36,886	36,891	Short Term Borrowing	39,000	0	4	39,004	39,001	39,006
400	355	388	Salix	339	0	0	339	318	331
<b>239,989</b>	<b>279,795</b>	<b>320,181</b>	<b>Total</b>	<b>257,302</b>	<b>614</b>	<b>2,170</b>	<b>260,086</b>	<b>320,254</b>	<b>370,405</b>

Fair values of assets are calculated as:

31 March 2016

31 March 2017

Carrying Amount	Fair Value	Investments	Principal Advanced	Add Accrued Interest	Carrying Amount	Fair Value
£000	£000		£000	£000	£000	£000
10,710	10,710	Cash and Cash Equivalents	10,794	100	10,894	10,895
55,007	55,049	Short Term Investments	64,985	87	65,072	65,060
<b>65,717</b>	<b>65,759</b>	<b>Total</b>	<b>75,779</b>	<b>187</b>	<b>75,966</b>	<b>75,955</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 2017	Historical experience of default	Historical experience adjusted for market conditions as at 31 March 2017	Estimated maximum exposure to default and non collectable amounts
	£000	%	%	£000
Cash & Cash Equivalents & Short Term Investments	83,808	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 2016		31 March 2017	
£000		£000	
10,710	Less than 3 months	18,735	
25,001	3 to 6 months	35,069	
30,006	6 months to 1 year	30,004	
0	More than 1 year	0	
<b>65,717</b>	<b>Total</b>	<b>83,808</b>	

## 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

31 March 2016		31 March 2017	
£000		£000	
38,970	Less than 1 year	49,031	
10,093	1 to 2 years	10,034	
27,096	2 to 5 years	17,733	
2,798	5 to 10 years	2,256	
51,632	10 to 20 years	55,665	
4,100	20 to 30 years	0	
60,700	30 to 40 years	80,534	
36,883	40 to 50 years	37,049	
5,000	Greater than 50 years	5,000	
<b>237,272</b>	<b>Total</b>	<b>257,302</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. However, the Council has partially hedged against this risk for an element of its loan portfolio by entering into two forward starting loan transactions, where loans will be drawn at pre-defined future dates and where the interest rate was fixed at the point of execution of the loans in February 2016. The first of these loans will be drawn in June 2017 and the second in November 2018;
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet or the CIES for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the balance sheet for those assets shown on the balance sheet at fair value;
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the balance sheet or CIES for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

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

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

According to this assessment strategy, at 31 March 2017, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

## Interest Rate Risk

	£000	£000
Increase in interest payable on variable rate borrowings	419	
Increase in interest receivable on variable rate instruments	(845)	
Increase in government grant receivable for financing costs	0	
<b>Impact on CIES</b>	<b>(426)</b>	
<b>Share of overall impact credited to the HRA</b>	<b>(250)</b>	
	<b>A</b>	<b>B</b>
<b>Decrease in fair value of fixed rate investment assets (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income &amp; Expenditure)</b>	<b>(1)</b>	<b>(1)</b>
<b>Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income &amp; Expenditure)</b>	<b>(41,628)</b>	<b>(54,080)</b>

Note: Column A reflects the decrease in fair value of fixed rate investment assets & borrowing liabilities using the “New Loan” rate measurement of Fair Value. Column B reflects the decrease in fair value of fixed rate investment assets & borrowing liabilities using the “Premature Repayment” rate measurement of Fair Value.

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

## Price Risk

The Council has a 5.5% shareholding in Lothian Buses which is available for sale to other company shareholders. The Council also have a 10% pin-point equity stake in the Newbattle DBFM Co. There is no price risk associated with either of these.

## Foreign Exchange Risk

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

## 16. Long Term Investments

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 reduction in the value of the investment of £0.254 million, from £5.189 million in 2015/16 to £4.935 million in 2016/17.

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

Year to 31 December 2015		Year to 31 December 2015
£000		£000
142,453	Turnover	146,915
8,958	Profit before taxation	13,995
(2,525)	Taxation	(2,013)
6,433	Profit after taxation	11,982
5,494	Ordinary dividend	6,592
33,045	Transfer to / (from) reserves	(4,645)
<b>94,870</b>	<b>Net assets at end of year</b>	<b>90,225</b>

## 17. Debtors

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

### Short Term Debtors

2015/16	2015/16	2016/17	2016/17
£000	£000	£000	£000
28,898	Council Tax and Community Charge	29,539	
(26,609)	Less: bad debt provision	(27,590)	
	2,289		1,949
	2,539 Central Government Bodies		4,766
	1,296 Other Local Authorities		208
	-7 Public Corporations and Trading Funds		0
	0 NHS Bodies		1,097
	2,668 Rents		2,625
15,366	Grants, External Debtor accounts and other Income due	15,260	
(5,859)	Less: bad debt provision	(6,264)	
	9,507		8,996
	<b>18,292 Net Debtors</b>		<b>19,641</b>

### Long Term Debtors

2015/16		2016/17
£000		£000
3,607	Prepayment to PPP Contractor	3,100
32	Pacific Shelf	36
<b>3,639</b>	<b>Total Long Term Debtors</b>	<b>3,136</b>

## 18. Cash and cash equivalents

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

2015/16		2016/17
£000		£000
53	Cash and Bank Balances	54
13,368	Short Term Deposits Considered to be Cash Equivalents	18,681
(2,711)	Bank Overdraft	(7,841)
<b>10,710</b>	<b>Total Cash and Cash Equivalents</b>	<b>10,894</b>

## 19. Creditors

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

2015/16		2016/17
£000		£000
5,234	Payroll Costs Due	2,601
3,291	Accumulated Absences	6,368
(255)	Central Government Bodies	1,631
368	Other Local Authorities	425
0	NHS Bodies	71
4	Public Corporations and Trading Funds	0
(3,098)	NDR/Council Tax	735
15,588	Trade Crebtors	15,467
2,615	Other Entities and Individuals	1,700
<b>23,747</b>	<b>Total Creditors</b>	<b>28,998</b>

## 20. Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council



may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

A provision for potential uninsured losses arising from claims is also made and this amounted to £1.431 million at 31 March 2017 (2015/16 £1.640 million) and is shown in other provisions.

## 21. Other long term liabilities

2015/16		2016/17
£000		£000
68,145	Net Pension Liabilities	118,041
54,971	PPP Liabilities	53,657
8,193	Borders Railway liability	8,193
<b>131,309</b>	<b>Total Long Term Liabilities</b>	<b>179,891</b>

The Borders Railway opened to the public on Sunday 6th September 2015 running from Tweedbank in the Scottish Borders through Midlothian to Waverley Station in Edinburgh. There are four stations in Midlothian at Gorebridge, Newtongrange, Eskbank and Shawfair. Midlothian's contribution to the project was capped at £11.673 million, of which £3.209 million is an in-kind contribution and £8.464 million (at 2012 prices and subject to BCIS inflation) is payable to the Scottish Government in planned instalments over the coming years. At the Balance Sheet date the indexed value of future year payments is £9.273 million. £1.080 million has been collected leaving a further liability of £8.193 million. This has been recognised as a prior-year adjustment in the accounts. Further contributions totalling £5.464 million have been secured through legally binding Section 75 planning agreements. This would leave a potential liability to the Council of £2.729 million at the Balance Sheet date. This balance, whilst not underpinned by legal agreements is however secured through the Midlothian Local Development Plan and associated supplementary guidance which stipulates the sites for which a contribution from housing developers to Borders Railway will apply.

## 22. Usable reserves

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

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

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

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

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
(24,625)	General Fund Reserve	(17,651)
(24,913)	HRA Balance	(29,753)
(15,378)	Capital Fund	(16,707)
(3,607)	Repairs and Renewals Fund	(3,100)
<b>(68,523)</b>	<b>Total Usable Reserves</b>	<b>(67,211)</b>

## 23. Unusable reserves

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£000</b>		<b>£000</b>
(208,227)	22.1 Capital Adjustment Account	(202,329)
(117,635)	22.2 Revaluation Reserve	(118,403)
68,145	22.3 Pension Reserve	118,041
3,291	22.4 Employee Statutory Adjustment Account	6,368
2,667	22.5 Financial Instruments Adjustment Account	2,500
(4,839)	22.6 Available for Sale Financial Instruments Reserve	(4,585)
<b>(256,598)</b>	<b>Total Unusable Reserves</b>	<b>(198,408)</b>

### 23.1 Capital Adjustment Account

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

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

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

2015/16		2016/17
£000		£000
<b>(204,047)</b>	<b>Restated Balance at 1<sup>st</sup> April</b>	<b>(208,227)</b>
	<i>Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:</i>	
32,182	- Charges for Depreciation of non-current assets	34,992
5,777	- Charges for Downward Revaluation of non-current assets	13,837
115	- Amortisation of intangible assets	187
4,731	- PPE non-current assets written off on disposal or sale	6,001
(1,533)	- PPE depreciation written off on disposal or sale	(1,189)
0	- AHFS non-current assets written off on disposal or sale	0
(487)	- Adjusting amount written out to Revaluation reserve	(13,907)
(12,170)	- Accumulated gains on assets sold or scrapped	
0	Net revenue expenditure financed from capital under statute (REFFCUS)	22
	Other movements	(45)
<b>(175,432)</b>	<b>Net written out amount of the cost of non-current assets consumed in year</b>	<b>(168,329)</b>
	<i>Capital Financing for the year:</i>	
(1,843)	- Use of Capital Receipts to finance new Capital expenditure	(5,983)
(22,627)	- Capital Grants and Contributions credited to the CIES	(19,516)
(8,325)	- Statutory Provision for the financing of capital investment	(8,501)
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>(208,227)</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>(202,329)</b>

## 23.2 Revaluation Reserve

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

2015/16		2016/17
£000		£000
<b>(89,266)</b>	<b>Restated Balance at 1<sup>st</sup> April</b>	<b>(117,635)</b>
(40,937)	(Upward) / downward Revaluation of Assets	5,367
12,080	Downward revaluation of assets and impairment losses not charged to the Surplus / (Deficit) on the provision of services	-20,510
	Adjusting amount from Capital Adjustment Account	13,907
488	Accumulated losses on assets sold	423
0	Other movements	45
<b>(117,635)</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>(118,403)</b>

## 23.3 Pension Reserve

The Pension Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the CIES as the benefits earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pension Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and resources the Council has set aside to meet them. Statutory arrangements will ensure that funding will have been set aside by the time benefits come to be paid.

2015/16		2016/17
£000		£000
<b>115,549</b>	<b>Balance at 1<sup>st</sup> April</b>	<b>68,145</b>
	Return on Pension Assets	
(55,787)	Actuarial (gains) / losses arising on changes in financial assumptions	44,365
	Actuarial (gains) / losses arising from other experience	
20,183	Reversals of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the CIES	17,983
(11,800)	Employer's pension contributions	(12,452)
<b>68,145</b>	<b>Balance at 31<sup>st</sup> March</b>	<b>118,041</b>

### 23.4 Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. An example of this is annual leave entitlement carried forward at 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 £3.078 million (2015/16 £1.197 million).

2015/16		2016/17
£000		£000
5,208	Balance at 1 <sup>st</sup> April	3,291
(5,208)	Settlement or cancellation of accrual made at end of preceding year	(3,291)
3,291	Amounts accrued at the end of the current year	6,368
3,291	Balance at 31 <sup>st</sup> March	6,368

### 23.5 Financial Instruments Adjustment Account

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

2015/16		2016/17
£000		£000
2,876	Balance at 1 <sup>st</sup> April	2,667
(7)	Proportion of equivalent interest rate calculation on lender option / borrower option loans	(7)
(202)	Change in share of equivalent interest rate calculation	(160)
2,667	Balance at 31 <sup>st</sup> March	2,500

### 23.6 Available for Sale Financial Instruments Reserve

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

2015/16		2016/17
£000		£000
(3,032)	Balance at 1st April	(4,839)
(1,807)	Revaluation of investments	254
(4,839)	Balance at 31st March	(4,585)

## 24. Cash Flow Statement – operating activities

2015/16		2016/17
£000		£000
<b>7,032</b>	<b>Net surplus or (deficit) on the provision of services</b>	<b>(30,406)</b>
	<b>Adjustment to surplus or deficit on the provision of services for noncash movements</b>	
32,181	Depreciation	34,992
5,688	Impairment & downward revaluations (& non-sale derecognitions)	13,836
115	Amortisation	187
(202)	Reduction in Fair Value of non PWLB Concessionary Loans	0
451	Adjustment for internal interest charged	482
161	(Increase)/Decrease in Inventories	15
(393)	(Increase)/Decrease in Debtors	(1,164)
305	(Increase)/Decrease in Interest and Dividend Debtors	(31)
(7)	Adjustment for effective interest rates	(8)
(3,904)	Increase/(Decrease) in Creditors	5,366
50	Increase/(Decrease) in Interest Creditors	74
8,383	Movement in Pension Liability	5,531
3,198	Carrying amount of non-current assets sold	5,457
(110)	Contributions to Other Reserves/Provisions	(209)
(244)	Other non-cash movements and transfers to investing activities	(31)
<b>45,672</b>		<b>64,497</b>
	<b>Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>	
40,000	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	40,000
(2,368)	Proceeds from the sale of PP&E, investment property and intangible assets	(7,312)
(22,627)	Capital grants included in Service expenditure and "Taxation & non-specific grant income"	(19,516)
<b>15,005</b>		<b>13,172</b>
<b>53,645</b>	<b>Net Cash Flows from Operating Activities</b>	<b>47,264</b>
	<b>Operating activities within the cash flow statement include the following cash flows relating to interest</b>	
779	Interest Received	262
(14,258)	Interest Paid	(13,435)
300	Dividends Received	361

## 25. Cash Flow Statement - investing activities

2015/16		2016/17
£000		£000
(31,018)	Purchase of PP&E, investment property and intangible assets	(49,459)
(54,985)	Purchase of Short Term Investments (not considered to be cash equivalents)	(50,000)
3,573	Proceeds from the sale of PP&E, investment property and intangible assets	7,141
23,713	Other Receipts from Investing Activities	26,417
<b>(58,717)</b>	<b>Net Cash flows from Investing Activities</b>	<b>(65,902)</b>

## 26. Cash Flow Statement - financing activities

2015/16		2016/17
£000		£000
220,269	Cash Receipts from Short and Long Term Borrowing	429,000
(1,121)	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(1,208)
(217,703)	Repayment of Short and Long Term Borrowing	(408,970)
<b>1,445</b>	<b>Net Cash flows from Financing Activities</b>	<b>18,822</b>

## 27. Audit fees

The anticipated fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice for 2016/17 is £0.222 million (2015/16 £0.242 million). There was additional expenditure of £49,000 in respect of non-audit services provided by the appointed auditor.

## 28. Capital grants received in advance

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the grantor. All monies held in the Capital Grants Received in Advance account are as a result of developers contributions, the balances are as follows:

2015/16		2016/17
£000		£000
<b>18,049</b>	<b>Balance at 1 April</b>	<b>16,395</b>
6,596	New capital grants received in advance, conditions of use not met	11,611
(8,250)	Amounts released to CIES, conditions of use met	(5,062)
<b>16,395</b>	<b>Balance at 31 March</b>	<b>22,944</b>

## 29. 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).

### **Officers**

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

### **Elected Members**

Elected members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2016/17 is shown in the Remuneration Report. There are no other related party transactions with members of the Council.

### **Entities Controlled or Significantly Influenced by the Council**

During the year the Council entered into material transactions with the Lothian Valuation Board. This amounted £0.560 million (2015/16 £0.560 million).

### **Midlothian Integration Joint Board**

Midlothian Integration Joint Board was established on 20 August 2015 and resources were delegated to the Board by the Council with effect from 1 April 2016. The Council delegated resources totalling £38.237m to the Board. These resources were allocated to the Council for the provision of Adult Social Care services.

The Council provides assistance in kind in terms of Board staff (Chief Officer) and administrative support for the operation of the Board. In addition no charge is made for central support functions provided over and above the resources delegated which relate specifically to Adult Social Care.



### 30. Capital expenditure and capital financing

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

2015/16	2015/16		2016/17	2016/17
£000	£000		£000	£000
	<b>311,209</b>	<b>Opening Capital Financing Requirement</b>		<b>310,204</b>
		Capital Expenditure		
31,475		Property, Plant and Equipment	54,949	
314		Intangible Assets	166	
0		Revenue Expenditure funded from capital under statute	434	
	<b>32,313</b>			<b>55,549</b>
		<b>Capital Financing</b>		
(1,843)		Capital Receipts	(11,761)	
(12,701)		Government Grants	(13,952)	
(9,926)		Contribution from Other Bodies	(5,975)	
(8,324)		Loans Fund and Lease Repayments	(8,501)	
	<b>(33,318)</b>			<b>(40,189)</b>
	<b>310,204</b>	<b>Closing Capital Financing Requirement</b>		<b>325,564</b>
	<b>(1,005)</b>	<b>Increase in Capital Financing Requirement</b>		<b>15,360</b>

### 31. Commitments under capital contracts

As at 31 March 2017, the Council was contractually committed to capital works which amounted to £10.062 million (31 March 2016 equivalent £17.194 million).

The value of work completed as at 31 March 2017 has been established using a stage of completion methodology based on Contract Administrator's Certificates obtained at year end.

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

- The new Loanhead hub. £13.879 million original contractual commitment; £6.227 million remaining commitment outstanding;
- The replacement for Roslin primary school. £6.400 million original contractual commitment; £1.354 million remaining commitment outstanding;
- HRA Phase II Housing: Site 51b, Stobhill Road, Gorebridge. £3.134 million original contractual commitment; £0.861 million remaining commitment outstanding.

The total value of retentions held as at 31 March 2017 amount to £1.352 million.

### 32. Public-private partnership

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and 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 9.69% 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.

The Council has entered into four Public Private Partnerships.

- The first is for the provision and facilities management of the Dalkeith School Campus and is a 30 year contract with Dalkeith SPV Ltd. When the agreement ends in 2034 the Campus facilities will transfer to the Council with a guaranteed maintenance-free life of five years. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with one contract month's notice.
- The second is a contract with Midlothian Schools Ltd for the provision and facilities management of Stobhill, Gorebridge, Tynewater, Moorfoot, Loanhead and St Margaret's, Lawfield and Strathesk Primary Schools. When the agreement ends in 2037 the facilities will transfer to the Council in a useable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 6 months notice.
- The third is for the provision and lifecycle maintenance of the Newbattle Centre and is a 25 year contract with hubCo. The contract is currently in the construction phase with an anticipated opening date of 31 March 2018. When the agreement ends in 2043 the facilities will transfer to the Council in a useable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with variable notice periods as defined in the contract.
- The fourth is for the provision of a food waste treatment plant at Millerhill, jointly procured between Midlothian and the City of Edinburgh Council. The contract is for 20 years and at the end of the concession period in 2036, the asset will not revert back to the partner Councils and will remain under the full control of the DBFO operator, who has the option to continue to operate the asset from year 20 through to year 40, paying a market rent for the lease of the land over this period. At the end of the 40<sup>th</sup> year, the asset will be decommissioned and the decommissioned site shall be transferred back to the ownership of the Councils. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 40 days notice.

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

The value of assets held under PFI arrangements at 31 March 2017 is £65.388 million (2015/16 £65.369 million). The movement is in year depreciation of £1.237 million, written back depreciation on revaluation £2.929 million, revaluation £1.718 million and additions £0.045 million (2015/16 £1.167 million depreciation, £2.899 written back depreciation, £5.111 million revaluation and £0.035 million additions). There is a deferred liability at 31 March 2017 for the financing of these assets of £54.972 million (2015/16 £56.180 million). Details of payments to be made under PFI arrangements are:

During the year a total of £1.208 million (2015/16 £1.121 million) was paid in relation to finance lease liabilities under the PFI contracts.

#### **Dalkeith Campus**

	<b>Liability</b>	<b>Interest</b>	<b>Service Charge</b>	<b>Total</b>
<b>Period</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Within 1 year	635	2,292	1,893	4,820
Within 2 to 5 years	3,218	8,489	8,058	19,765
Within 6 to 10 years	6,119	8,515	11,259	25,893
Within 11 to 15 years	9,716	4,918	12,739	27,373
Within 16 to 20 years	3,964	522	4,239	8,725
Within 21 to 25 years	0	0	0	0
<b>Total Contract</b>	<b>23,652</b>	<b>24,736</b>	<b>38,188</b>	<b>86,576</b>

#### **Primary Schools**

	<b>Liability</b>	<b>Interest</b>	<b>Service Charge</b>	<b>Total</b>
<b>Period</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Within 1 year	701	2,268	1,883	4,851
Within 2 to 5 years	3,353	8,520	8,013	19,886
Within 6 to 10 years	5,765	9,077	11,196	26,038
Within 11 to 15 years	8,197	6,645	12,667	27,509
Within 16 to 20 years	11,655	3,187	14,331	29,173
Within 21 to 25 years	1,419	103	1,585	3,107
<b>Total Contract</b>	<b>31,090</b>	<b>29,801</b>	<b>49,673</b>	<b>110,564</b>

### **33. Retirement benefits**

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

#### **Teachers**

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

In 2016/17 the Council paid 5.851 million (2015/16 £5.457 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 17.2% (2015/16 17.2%).

### Local Government Pension (Scotland) Scheme

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

In 2016/17 the Council paid an employer contribution of £12.452 million (2015/16 £11.800 million) into the Lothian Pension Fund, representing 21.8% (2015/16 22.9%) of pensionable pay. This is the expenditure met from Government Grants and Local Taxation. It is estimated that the employer contribution for the period to 31 March 2018 will be £11.854 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

2015/16		2016/17
£000		£000
	Net cost of services:	
16,204	Current Service Cost	15,448
208	Past Service Costs (including curtailments)	98
	Net operating expenditure:	
15,865	Interest cost	16,332
(12,094)	Expected return on scheme assets	(13,895)
<b>20,183</b>	<b>Net charge to CIES</b>	<b>17,983</b>

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

(20,183)	Reversal of net charges made for retirement benefits in accordance with IAS 19	(17,983)
11,800	Employers contributions payable to pension fund	12,452

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 £44,365 million (2015/16 gain of £55.787 million) were included in other comprehensive income and expenditure in the CIES.

## Assets and Liabilities in relation to retirement benefits

<b>2015/16</b>	Reconciliation of present value of the scheme liabilities:	<b>2016/17</b>
<b>£000</b>		<b>£000</b>
493,662	Opening Balance	464,544
16,204	Current Service Costs	15,448
15,865	Interest Cost	16,332
3,109	Contribution by Members	3,374
(49,226)	Actuarial losses/(gains)	120,235
208	Past Service Costs (including curtailments)	98
(888)	Estimated Unfunded Benefits Paid	(798)
(14,390)	Estimated Benefits Paid	(13,265)
<b>464,544</b>	<b>Balance at 31 March</b>	<b>605,968</b>
<b>2015/16</b>	Reconciliation of fair value of the scheme assets:	<b>2016/17</b>
<b>£000</b>		<b>£000</b>
378,112	Opening Balance	396,398
12,094	Expected return on Assets	13,895
3,109	Contributions by Members	3,374
10,912	Contributions by the Employer	11,654
888	Contribution in respect of unfunded benefits	798
6,561	Actuarial gains	75,870
(888)	Unfunded Benefits paid	(798)
(14,390)	Benefits paid	(13,265)
<b>396,398</b>	<b>Balance at 31 March</b>	<b>487,926</b>

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

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £605.968 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £118.042 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 2016/17 was 348% 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 2017.

The main assumptions used by the actuary have been:

<b>2015/16</b>	<b>2016/17</b>
Longevity at 65 for current pensions (Mortality):	
22.1 Men (years)	22.1
23.7 Woman (years)	23.7
Longevity at 65 for future pensions (Mortality):	
24.2 Men (years)	24.2
26.3 Woman (years)	26.3
2.2% Inflation / Pension Increase Rate	2.4%
4.2% Salary Increase Rate	4.4%
3.5% Discount Rate	2.6%
50% Take up of options to convert Annual Pension into Retirement Lump 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>31/03/2016</b>	<b>31/03/2017</b>
62% Equity Securities	62%
9% Debt Securities	11%
4% Private Equity	14%
9% Real Estate	6%
10% Investment Funds and Unit Trusts	2%
6% Cash and Cash Equivalents	5%
<b>100%</b>	<b>100%</b>

## Projected defined benefit cost for the period to 31 March 2018

Analysis of projected amount to be charged to operating profit for the period to 31 March 2018

Period ended 31 March 2018	Assets £(000)	Obligations £(000)	Net Liability / (asset) £(000)	% of pay
Projected Current Service cost *		21,387	(21,387)	(37.5%)
Past service cost including curtailments		-	-	-
Effect of settlements	-	-	-	-
<b>Total Service Cost</b>	-	21,387	(21,387)	(37.5%)
Interest income on plan assets	12,699		12,699	22.3%
Interest cost on defined benefit obligation		15,881	(15,881)	(27.9%)
<b>Total Net Interest Cost</b>	12,699	15,881	(3,182)	(5.6%)
<b>Total Included in Profit and Loss</b>	12,699	37,268	(24,569)	(43.1%)

\*The current service cost includes an allowance for administration expenses of 0.3% of payroll. The monetary value is based on a projected payroll of £57.002 million.

The contributions paid by the Employer are set by the Fund Actuary at each triennial valuation (the most recent being as at 31 March 2014), or at any other time as instructed to do so by the Administering Authority. The contributions payable over the period to March 2018 are set out in the Rate and Adjustments certificate. Employers contributions for the period to 31 March 2018 will be approximately £11.854 million..

## Investment Returns

Actual Returns from 1 April 2016 to 31 December 2016	17.1%
Total Returns from 1 April 2016 to 31 March 2017	22.6%

Local Government legislation provides that Local Authorities have an obligation to meet their share the expenditure of the Joint Boards of which they are constituent members. At 31<sup>st</sup> March 2017 the liability for Pensions sits at £12.395 million. As a consequence the Council has additional liabilities arising from the pension deficit of the Lothian Valuation Joint Board.

## 34. Contingent liability

The council recognises the potential for compensation claims deriving from the Scottish Government's Limitation (Childhood Abuse) (Scotland) Bill which will remove the three-year time limit on claims of child abuse. Some claims will be historic and relate to Lothian Regional Council, Midlothian District Council or their predecessors some will date post-reorganisation and relate to Midlothian Council.

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



### 35. Contingent assets

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

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

There are some 18 active trusts, bequests and community funds of varying size managed by the Council, each of which has specific objectives and conditions. None of the funds are currently registered charities.

The main funds are:

31/03/2016		31/03/2017
£000		£000
14	Dalkeith Common Good	14
2	Penicuik Common Good	2
134	Community Mining Funds	94
67	Other Funds	60
<b>217</b>	<b>Total</b>	<b>170</b>

A total of £0.081 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.

### 37. 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 2017

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

2015/16		2016/17	per house per week
£000		£000	£
<b>Income</b>			
23,271	Gross dwelling rents	24,966	70.17
517	Non dwelling rents	541	1.52
3,942	Other Income	5,751	16.16
<b>27,730</b>		<b>31,258</b>	<b>87.85</b>
<b>Expenditure</b>			
5,104	Repairs and Maintenance	5,407	15.20
4,892	Supervision and Management	4,692	14.59
6,737	Depreciation of Non-Current Assets	6,252	19.95
8,826	Impairment of Non-Current Assets	12,388	34.82
2,061	Other Expenditure	1,940	5.45
240	Increase / (Decrease) in Bad Debt Provision	60	0.17
<b>27,860</b>		<b>30,739</b>	<b>90.18</b>
<b>130</b>	<b>Net Cost of HRA services per the whole Council Comprehensive Income and Expenditure Account</b>	<b>519</b>	<b>-2.33</b>
250	HRA share of Corporate and Democratic Core	-250	0.70
<b>380</b>	<b>Net Cost of HRA Services</b>	<b>269</b>	<b>-1.62</b>
<b>HRA share of the operating income and expenditure included in the whole Council accounts</b>			
(273)	Loss / (Gain) on sale of HRA non-current assets	(1,804)	-5.07
5,041	Interest Payable and similar charges	5,091	14.31
(184)	Interest and Investment Income	-222	-0.62
3,898	Capital Grants Applied	5,698	16.02
262	Net Defined Benefit Liability and Expected Return on Pension Asset	94	0.26
<b>9,124</b>	<b>Deficit / (Surplus) for the year on the HRA Services</b>	<b>8,588</b>	<b>26.52</b>

#### Movement on the HRA Statement for year ended 31 March 2017

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.

2015/16 £000		2016/17 £000	per house per week
	Deficit for the year on the HRA Income & Expenditure Account		
<b>9,124</b>	<b>Items included in the HRA Income &amp; Expenditure Account but excluded from the movement on HRA balance for the year</b>	<b>8,588</b>	<b>26.52</b>
273	Gain/(loss) on sale of HRA non-current assets	1,804	5.07
(12,280)	Transfer to/(from) Capital Adjustment Account	(14,979)	(44.48)
(653)	HRA share of contributions to/from pension reserve	(254)	(0.71)
<b>(3,536)</b>	<b>(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account</b>	<b>(4,841)</b>	<b>(13.60)</b>
<b>(21,376)</b>	Housing Revenue Account Balance brought forward	<b>(24,913)</b>	<b>(70.02)</b>
<b>(24,913)</b>	<b>Housing Revenue Account Balance carried forward</b>	<b>(29,754)</b>	<b>(83.63)</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 2017 the Council had 6,842 houses (31 March 2016 6,835) which can be analysed as follows:

2015/16	Type of Dwelling	2016/17
Number		Number
822	1 Bedroom	855
3,814	2 Bedroom	3,798
1,865	3 Bedroom	1,863
324	4 Bedroom	316
10	5 / 6 Bedroom	10
<b>6,835</b>	<b>Total</b>	<b>6,842</b>

### 3. Rent Arrears

At the end of the year rent arrears amounted to £2.573 million (2015/16 £2.572 million) for which a provision for bad and doubtful debts of £1 million (2015/16 £0.940 million) exists.

### 4. Void Properties

The total value of uncollectable void rents for main provision properties amounted to £0.402 million (2015/16 £0.521 million). This has been netted against rental income.

## Council Tax Income Account

### Income and expenditure account

For the year ended 31 March 2017

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).

2015/16		2016/17
£000		£000
46,513	Gross Council Tax levied and Contributions in Lieu	47,474
	<b>Less :</b>	
4,988	Discounts	5,039
4,888	Council Tax Reduction Scheme	4,730
1,239	Write-off of Uncollectable Debts and Allowances for Impairment	1,267
<b>35,398</b>		<b>36,438</b>
(34)	Adjustments to previous years Community Charge and Council Tax	(23)
<b>35,364</b>	<b>Transfers to the General Fund</b>	<b>36,415</b>

## Notes to the Council Tax Income Account

### Calculation of the Council tax base for the year 2016/17

	Property Bands								
	A	B	C	D	E	F	G	H	Total
Properties	982	12,480	10,738	5,259	4,782	3,239	2,030	169	39,679
Disabled relief	42	14	-29	5	-12	-4	-15	-1	0
<b>Less</b>									
Exemptions	69	445	252	95	193	45	26	4	1,129
Discounts (25%)	141	1,440	904	365	238	100	56	3	3,245
Discounts (50%)	1	6	5	2	2	3	2	0	19
Other Discounts	4	24	23	11	5	4	4	1	76
Council Tax Reduction Scheme	255	2,603	1,444	268	114	28	21	0	4,733
Effective properties	556	7,977	8,082	4,523	4,217	3,056	1,906	160	30,478
Ratio to band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D equivalents	370	6,205	7,184	4,523	5,155	4,415	3,176	320	31,348
Contributions in lieu – Band D equivalents									202
<b>Total Council Tax Base</b>									<b>31,550</b>
Provision for non payment									-1,004
<b>Total</b>									<b>30,546</b>

### Number of 'effective' properties and charges for each band

Band	A	B	C	D	E	F	G	H	Total
<b>Numbers</b>	555	7,977	8,082	4,523	4,217	3,056	1,906	160	30,477
<b>£</b>	807	941	1,076	1,210	1,479	1,748	2,017	2,420	

## Non-Domestic Rates Income Account

### Income and expenditure account

For the year ended 31 March 2017

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.

2015/16		2016/17
£000		£000
37,494	Gross rates levied	39,024
	<b>Less:</b>	
8,169	Reliefs and other deductions	7,380
0	Interest paid	0
	Write-offs of uncollectable debts and allowance for impairment	
464		500
3,411	Adjustments to previous years	2,291
<b>25,450</b>	<b>Net Non Domestic Rate Income</b>	<b>28,853</b>
0	Non-Domestic Rate Income Retained by Authority (BRIS)	0
<b>25,450</b>	<b>Contribution to Non-Domestic Rate Pool</b>	<b>25,853</b>
	<b>Allocated:</b>	
25,529	Contribution to national non-domestic rates pool	28,933
(79)	Midlothian Council	(81)
<b>25,450</b>		<b>28,853</b>

### Notes to the Non-Domestic Rates Income Account

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £32.026 million (2015/16 £29.468 million).
2. 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 48.4p per £ (2015/16 48p per £) where the rateable value was less than or equal to £29,000 and 51p per £ (2015/16 49.3 per £) where the rateable value exceeded £35,000.
3. 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.

#### 4. Rateable Value as at the start of the year

<b>Number</b>	<b>Rateable Value</b>		<b>Number</b>	<b>Rateable Value</b>
<b>2015/16</b>	<b>2015/16</b>		<b>2016/17</b>	<b>2016/17</b>
	<b>£000</b>			<b>£000</b>
1,693	44,984	Shops, Offices and Other Commercial Subjects	1,699	45,934
900	14,720	Industrial and Freight Transport	928	14,609
292	16,956	Miscellaneous (Schools etc)	295	17,391
<b>2,885</b>	<b>76,660</b>		<b>2,922</b>	<b>77,934</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

## Group Movement in Reserves Statement

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

	Note / source	2015/16 – Previous year comparison (restated)					Repairs and Renewals Fund	Total Usable Reserv es	Unusable Reserves	Total Council Reserves	Authorities Share of the reserves of subsidiaries, associates and joint ventures	Total Reserves
		General Fund Reserve	HRA Balance	Capital Fund								
		£000	£000	£000							£000	£000
<b>Balance at 1 April 2015</b>		<b>(21,315)</b>	<b>(21,376)</b>	<b>(14,853)</b>			<b>(3,073)</b>	<b>(60,617)</b>	<b>(172,712)</b>	<b>(233,329)</b>	<b>0</b>	<b>(233,329)</b>
Total Comprehensive Expenditure and Income	CIES	(2,092)	9,124	0			0	7,032	(98,823)	(91,791)	<b>274</b>	<b>(91,517)</b>
Adjustments between accounting basis and funding basis under regulations	6	(1,752)	(12,661)	(525)			0	(14,937)	14,937	0	0	0
<b>Net increase/ (decrease) before transfers to other statutory reserves</b>		<b>(3,844)</b>	<b>(3,537)</b>	<b>(525)</b>			<b>0</b>	<b>(7,906)</b>	<b>(83,885)</b>	<b>(91,791)</b>	<b>274</b>	<b>(91,517)</b>
Transfers to/(from) other statutory reserves		<b>534</b>	<b>0</b>	<b>0</b>			<b>-534</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Increase/(Decrease) in year</b>		<b>(3,310)</b>	<b>(3,537)</b>	<b>(525)</b>			<b>(534)</b>	<b>(7,906)</b>	<b>(83,885)</b>	<b>(91,791)</b>	<b>274</b>	<b>(91,517)</b>
<b>Balance at 31 March 2016</b>		<b>(24,625)</b>	<b>(24,913)</b>	<b>(15,378)</b>			<b>(3,607)</b>	<b>(68,523)</b>	<b>(256,598)</b>	<b>(325,121)</b>	<b>274</b>	<b>(324,847)</b>



<b>2016/17 – Current Financial Year</b>	Note / source	General Fund Reserve	HRA Balance	Capital Fund	Repairs and Renewals Fund	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Total Council Reserves</b>	Authorities Share of the reserves of subsidiaries, associates and joint ventures	<b>Total Reserves</b>
		£000	£000	£000	£000	£000	£000	£000	£000	£000
<b>Balance at 1 April 1 April 2016</b>		<b>(24,625)</b>	<b>(24,913)</b>	<b>(15,378)</b>	<b>(3,607)</b>	<b>(68,523)</b>	<b>(256,598)</b>	<b>(325,121)</b>	<b>274</b>	<b>(324,847)</b>
Total Comprehensive Expenditure and Income	CIES	20,972	9,434	5,778	0	<b>36,184</b>	<b>23,317</b>	<b>59,501</b>	<b>593</b>	<b>60,094</b>
Adjustments between accounting basis and funding basis under regulations	6	(13,492)	(14,275)	(7,106)	0	(34,873)	34,873	0	0	0
<b>Net increase/ (decrease) before transfers to other statutory reserves</b>		<b>7,480</b>	<b>(4,841)</b>	<b>(1,328)</b>	<b>0</b>	<b>1,311</b>	<b>58,190</b>	<b>59,501</b>	<b>593</b>	<b>60,094</b>
Transfers to/(from) other statutory reserves		-507	0	0	507	0	0	0	0	0
<b>Increase/(Decrease) in year</b>		<b>6,973</b>	<b>(4,841)</b>	<b>(1,328)</b>	<b>507</b>	<b>1,311</b>	<b>58,190</b>	<b>59,501</b>	<b>593</b>	<b>60,094</b>
<b>Balance at 31 March 2017</b>		<b>(17,651)</b>	<b>(29,753)</b>	<b>(16,706)</b>	<b>(3,100)</b>	<b>(67,211)</b>	<b>(198,408)</b>	<b>(265,520)</b>	<b>867</b>	<b>(264,752)</b>

## Group Comprehensive Income and Expenditure Statement

For the year ended 31 March 2017

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

98

	Restated 2015/16	Restated 2015/16	Restated 2015/16			2016/17	2016/17	2016/17
	Gross Expenditure	Gross Income	Net Expenditure			Gross Expenditure	Gross Income	Net Expenditure
	£000	£000	£000	Service	Notes	£000	£000	£000
	1,758	-64	1,694	Management		£ 1,787	-66	1,721
	15,660	-92	15,568	Children's Services		£ 16,079	-139	15,940
	6,371	-2,129	4,242	Communities and Economy		£ 6,996	-1,972	5,024
	83,964	-1,722	82,242	Education		£ 98,842	-1,903	96,939
	52,305	-14,448	37,857	Adult Social Care		£ 95,628	-55,795	39,833
	39,233	-31,438	7,795	Customer and Housing Services		£ 36,730	-30,984	5,746
	22,151	-1,963	20,188	Commercial Services		£ 24,051	-2,050	22,001
	16,319	-241	16,078	Finance and Integrated Service Support		£ 11,886	-352	11,534
	24,650	-7,311	17,339	Properties and Facilities Management		£ 27,173	-7,490	19,683
	23,580	-24,446	-866	Housing Revenue Account		£ 30,739	-31,258	-519
	560	0	560	Joint Boards		£ 560	0	560

1,422	0	1,422	Non-Distributed Costs	7	£	1,449	0	1,499
<b>287,973</b>	<b>-83,854</b>	<b>204,119</b>	<b>Cost of Services</b>			<b>351,920</b>	<b>-132,009</b>	<b>219,961</b>
		57	Share of operating results of associates					14
		831	Other Operating Expenditure	8				(1,855)
		16,328	Financing and Investment Income and Expenditure	9				14,915
		(214,232)	Taxation and non-specific grant income	10				(202,565)
		<b>7,046</b>	<b>(Surplus) or Deficit on Provision of Services</b>					<b>30,470</b>
		(41,027)	(Surplus) or Deficit on revaluation of non-current assets					(21,142)
		(55,787)	Re-measurement of the net defined benefit liability	33				44,365
		0	Change in Capital Fund					5,778
		(2,591)	Other (Gains) / Losses					625
		<b>(99,405)</b>	<b>Other Comprehensive (Income) and Expenditure</b>					<b>29,625</b>
		<b>(92,359)</b>	<b>Total Comprehensive (Income) and Expenditure</b>					<b>60,095</b>

## Group Balance Sheet

### As at 31 March 2017

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".

Restated 31 March 2015	Restated 31 March 2016			31 March 2017
£000	£000		Notes	£000
611,295	640,904	Property, Plant and Equipment	11	651,696
1,187	1,073	Intangible Assets	12	766
26	27	Heritage Assets	14	68
3,382	5,189	Long Term Investments	16	4,935
0	56	Investments share of net assets of associates		-1,037
3,073	3,639	Long Term Debtors	17	3,136
<b>618,963</b>	<b>650,888</b>	<b>Long Term Assets</b>		<b>659,564</b>
40,152	55,007	Short Term Investments	15	65,072
800	2,535	Assets held for Sale	13	1,950
987	826	Inventories		811
20,658	18,292	Short Term Debtors	17	19,641
14,337	10,710	Cash and Cash Equivalents	18	10,894
<b>76,934</b>	<b>87,370</b>	<b>Current Assets</b>		<b>98,368</b>
44,237	41,073	Short Term Borrowing	15	51,270
25,468	23,530	Short Term Creditors	19	28,828
1,750	1,640	Provisions	20	1,431
18,049	16,395	Grants Receipts in Advance	28	22,944
<b>89,504</b>	<b>82,638</b>	<b>Current Liabilities</b>		<b>104,473</b>
193,143	198,917	Long Term Borrowing	15	208,816
179,921	131,309	Other Long Term Liabilities	21	179,892
<b>373,064</b>	<b>330,226</b>	<b>Long Term Liabilities</b>		<b>388,708</b>
<b>233,329</b>	<b>325,394</b>	<b>Net Assets</b>		<b>264,752</b>
60,617	68,270	Usable Reserves	6&22	67,438
172,712	257,124	Unusable Reserves	23	197,314
<b>233,329</b>	<b>325,394</b>	<b>Total Reserves</b>		<b>264,752</b>

Gary Fairley, Head of Finance and Integrated Service Support

## Notes to the Group Accounts

The Code of Practice on Local Council Accounting in the United Kingdom 2016/176 (The Code) requires local authorities to consider their interests in all types of entity. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Integration Joint Boards and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities. The Group Accounts of Midlothian Council are prepared in accordance with the accounting policies of the Council with the additions and exceptions shown below. The Group Accounts consolidate the results of the Council with five other entities. These organisations are entirely independent of the Council under law and for taxation.

### Valuation of Property, Plant and Equipment

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

### Depreciation

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

### Goodwill

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

### Basis of Consolidation

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

### Restrictions on transfer of funds

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

	Share	Share of	Share of Liabilities	Share of	Share of
	%	Assets		Revenues	(Profit)/Loss
		£000			
<b>Subsidiaries</b>					
Trusts, bequests, common good fund and community funds	100	170	170	(2)	47
Pacific Shelf 826 Ltd	100	0	556	0	3

### Associates

Lothian Valuation Joint Board	9.15	220	1,221	(1,511)	542
Midlothian Integration Joint Board	50	0	0	(67)	0

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

### Combining Entities

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

Subsidiary	Nature	Accounts Available from
Trusts, bequests, common good fund and community funds	To award grants across Midlothian.	Midlothian Council, Midlothian House Dalkeith
Pacific Shelf 826 Ltd	Property Development	Midlothian Council, Midlothian House Dalkeith
<b>Associates</b>		
Lothian Joint Valuation Board	Maintains the electoral, council tax and non-domestic rates registers for the Edinburgh, Midlothian, West Lothian and East Lothian Councils	The Treasurer, Lothian Joint Valuation Board, Edinburgh Council, Waverley Court, Edinburgh
Midlothian Integration Joint Board	Its purpose is to improve the well being of families, our communities and of people who use health and social care services. The Integration Scheme determines when the Council will have shared responsibility for additional funding with NHS Lothian and is linked to demographic shifts and demand volumes linked to service delivery.	Midlothian Council, Midlothian House Dalkeith

### Non-material interests in other entities

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

Seemis Group LLP who provide Scottish Local Authorities with an Education Management system. Midlothian have a 1.81% interest in Seemis. Net assets at 31<sup>st</sup> March 2017 were £2.384 million which would equate to a share of £0.430 million for Midlothian.

## **Independent Auditor's Report**

### **Independent auditor's report to the members of Midlothian Council and the Accounts Commission**

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 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Report on the audit of the financial statements**

#### **Opinion on financial statements**

We certify that we have audited the financial statements in the annual accounts of Midlothian Council ("the council") and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Income and Expenditure Account, the Council Tax Income Account, and the Non-Domestic Rate Income Account, and notes to the Financial Statements and noted to the Group accounts, including a summary of significant accounting policies. 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 2016/17 (the 2016/17 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the deficit on the provision of services of the council and its group 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 2016/17 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.

#### **Basis of opinion**

We conducted our audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Independent auditor's report to the members of Midlothian Council and the Accounts Commission Continued**

### **Responsibilities of the Head of Finance and Integrated Service Support for the financial statements**

As explained more fully in the Statement of Responsibilities, the Head of Finance and Integrated Service Support is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance and Integrated Service Support determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's responsibilities for the audit of the financial statements**

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require us to comply with the Financial Reporting Council's Ethical Standards for Auditors. 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 council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Integrated Service Support; and the overall presentation of the financial statements.

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### **Other information in the annual accounts**

The Head of Finance and Integrated Service Support is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements in accordance with ISAs (UK&I), our responsibility is to read all the financial and non-financial information in the annual 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.



## **Independent auditor's report to the members of Midlothian Council and the Accounts Commission Continued**

### **Report on other requirements**

#### **Opinions on other prescribed matters**

We are required by the Accounts Commission to express an opinion on the following matters.

In our opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

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

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Stephen Reid, for and on behalf of Ernst & Young LLP  
Ten George Street  
Edinburgh  
EH2 2DZ  
29 September 2017

## **Glossary of Terms**

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

### **1. Gross Expenditure**

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

### **2. Gross Income**

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

### **3. Corporate and Democratic Core**

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

### **4. Non Distributable Costs**

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

### **5. Employee Costs**

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

### **6. Property Costs**

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

## **7. Supplies and Services**

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

## **8. Transport Costs**

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

## **9. Administration**

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

## **10. Financing Costs**

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

## **11. Capital Charges**

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

## **12. Payments to Other Bodies**

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

## **13. Capital Financed from Current Revenue**

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

## **14. Other Costs**

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

## **15. Specific Government Grant**

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

## **16. Capital Expenditure**

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

## **17. Intangible Assets**

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

## **18. Non-Current Assets**

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

## **19. Revaluation Reserve**

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

## **20. Capital Adjustment Account**

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

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

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

## **22. Pension Reserve**

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

## **23. Associate**

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

## **24. Entity**

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