Midlothian

Midlothian Council
Audited
Financial Statements
2009/10

Statement of Accounts 2009/2010
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Explanatory Foreword by the Director Corporate Services

Introduction
The Statement of Accounts presents the financial position and performance of the Council for the year to 31st March 2010. It also includes the Council's Group Accounts which reflect its financial position including undertakings which are under the Council's control or influence. The information is presented in accordance with the Code of Practice on Local Authority Accounting. The accounting policies adopted by the Council are to ensure that the Accounts present a true and fair view. A brief review of financial performance is covered below. An explanation of the main technical terms used in the Statement of Accounts is included at pages 53 to 55.

This foreword describes briefly the principal items of interest or note that are contained within the Statement of Accounts.

Core Financial Statements
An explanation of the financial statements which follow and their purpose are:

- *The Income and Expenditure Account* reports the net cost for the year of all functions for which the Council is responsible and how that cost has been financed from general government grants and income from taxpayers;
- *The Statement of Movement on the General Fund Balance* shows how the Income and Expenditure Account surplus or deficit for the year reconciles to the movement on the General Fund for the year;
- *The Statement of Total Recognised Gains and Losses* shows all gains and losses experienced by the local authority, not just those reflected in the Income and Expenditure Account;
- *The Balance Sheet* brings together all the assets and liabilities of the Council. It is a statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at one particular point in time, a snapshot of its financial affairs at the close of the year expressed in accounting terms;
- *The Cash Flow Statement* summarises the inflows and outflows of cash arising from transactions with third parties on both day-to-day revenue transactions and on capital activities;
- *The Notes to the Core Financial Statements* give further information on the Council's core financial statements.

Supplementary Financial Statements
An explanation of the supplementary financial statements and their purpose are:

- *The Housing Revenue Account (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 Account reports the net cost for the year and shows how these costs were funded from rents and other income. The Statement of Movement of HRA balance reconciles the financial position shown in the Income and Expenditure Account to the movement in the HRA reserve for the year;
- *The Council Tax Income Account* shows the gross and net income from the council tax, together with details of the number of properties on which the council tax is levied, and the charge per property;
- *The Non-domestic Rates Income Account* shows the gross and net income from non-domestic rates and details the amount payable to the national non-domestic rates pool.

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Group Accounts
The Council is required to prepare Group Accounts which reflect its financial position including undertakings which are under the Council's control or influence. They comprise:

- Group Income and Expenditure Account;
- Reconciliation of the Council's Income and Expenditure Account to the Group Income and Expenditure Account;
- Group Statement of Total Recognised Gains and Losses;
- Group Balance Sheet;
- Group Cashflow Statement.

Trust Funds and Common Goods funds have been consolidated into the group together with Pacific Shelf 826 Ltd which is a wholly owned subsidiary and Lothian and Borders Police Board, Lothian and Borders Fire Board and Lothian Valuation Joint Board which are all considered associates. Shawfair Developments Ltd which is a 50% owned Joint Venture company has not been consolidated into the group accounts in 2009/10 as there is no activity in the company, the council wrote off all its investment in it in 2008/09 and the directors are currently considering winding it up.

Accounting Policy
Accounting standards are applied to local authorities through the medium of a statement of recommended practice (SORP). The Council is therefore required to comply with the requirements of "The Code of Practice on Local Authority Accounting in the United Kingdom 2009", which is issued by the CIPFA/LASAAC Joint Committee.

2009/10 sees a major change to the SORP which now requires that Public Private Partnerships (PPP) / Private Finance Initiative (PFI) assets are shown on the councils balance sheet. As a result, the 2008/09 Balance Sheet has been restated to include certified valuations for assets financed under a PPP. The valuation basis of these schools is outlined in the Accounting Policies. The value of schools recognised in the restated 2008/09 balance sheet amounts to £69.062 million. The recognition of these assets is partly balanced by a liability for the amounts due to the scheme operators to pay for these assets. Details can be seen in Note 10 to the accounts.

Implementation of International Financial Reporting Standards (IFRS) to replace the traditional SORP in 2010/11 requires a change to the way the Council values its housing stock. An estimation technique compliant with both IFRS and SORP 2009 was used in 2009/10 and is outlined in the Accounting policies. Overall, the value of housing stock has risen by £181.387 million between 31st March 2009 and 31st March 2010.

Financial Performance
The Council's financial performance is presented in the Income and Expenditure Account which can be seen on page 11. The Income and Expenditure Account complies with accounting practice but to show the net position of the council it is necessary to adjust the Income and Expenditure Account for items required by statute to be taken into account when determining the position on the General Fund for the year.

The Council underspent by £1.909 million against its revised budget. The main variances were a £0.655 million overspend on General Fund services, a £1.159 million underspend on loan charges and one-off VAT recoveries from Customs and Excise of £1.402 million for overpaid VAT on sports charges and library fines.

Income from government grants and local taxation in the year was £190.299 million, an increase of £0.267 million against the revised budget mainly because of an increase in chargeable properties for Council Tax. Scottish Government Grant in 2009/10 is £3.286 million greater than 2008/09.

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The General Fund Reserve at the start of the year was a surplus of £2.122 million, and it was expected that this would be reduced by £3.347 million in the year. The actual position is a reserve of £8.325 million. £3.433 million of this has been earmarked for specific purposes leaving £4.892 million as a contingency. In 2009/10 the Scottish Government granted the council consent to borrow of £9.091 million to fund equal pay costs. In 2009/10 £2.142 million of this was capitalised and increased the general fund balance. The other main movements in the reserve were a reduction in the provision for future equal pay costs of £1.137 million, a transfer from the Capital Fund of £1.367 million and favourable performance against budget of £1.909 million.

Housing Revenue Account

When the Housing Revenue Account budget for the year was set, it was anticipated that the income from rents would fund all revenue expenditure and enhance reserves at the end of the year to £10.975 million. In the event variations in income and expenditure resulted in reserves at 31 March 2010 of £10.970 million.

Trading Operations

The provisions contained in the Local Government in Scotland Act 2003 require the Council to consider all services provided and determine which are Significant Trading Operations. The act requires accounts to be maintained for these and that they should break even over a three-year rolling period. The council's significant Trading Operations comprise:

- Building Maintenance Services;
- Roads Maintenance Services;
- Property Investment Account.

Building Maintenance Services and Roads Maintenance Services both met their statutory objective. The Property Investment Account made a cumulative three year deficit. However, it would have made a surplus of £0.831 million had it not been for asset impairments totalling £1.095 million in 2008/09 and 2009/10. More details are provided in Note 9 to the Core Financial Statements.

Capital

Part 7 of the Local Government in Scotland Act 2003 requires that the Council must determine and keep under review how much it can afford to allocate to capital expenditure. In accordance with the SORP capital expenditure totalled £33.435 million in the year. The two main capital projects were new build HRA houses (£12.375 million) with 158 completed in 2009/10 and new build primary schools (£6.662 million).

The main sources of funding which allowed for investment in council assets and services was made possible by the realisation of capital receipts (£0.821 million), grants (£7.604 million), developer contributions (£1.225 million) and borrowing (£23.785 million). A full analysis of capital income and expenditure is provided in notes 15 and 16 to the core financial statements.

Long-term Borrowing

The Council borrowed money throughout the year to meet anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. 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 Public Works Loans Board. Further details are provided in note 35 to the Core Financial Statements.

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Net Pension Liability

The net pension liability, in accordance with FRS 17 (Retirement Benefits), amounts to £109.258 million. This is more than the council's useable reserves of £20.643 million. This is a significant deterioration on the liability a year ago (£42.676 million). The change is mainly due to a growth in the value of liabilities, which reflects the current low interest rate environment in the UK economy. It should be noted this is a snapshot of the position at 31 March 2010. The actuarial valuation of the Lothian Pension Fund, which takes a longer term view, will consider the appropriate employer's rates and this, together with revenues generated from the Pension Fund investments, will be used to meet the fund's commitments as they arise.

Acknowledgements
I should like to take this opportunity to thank all Divisions of the Council for their co-operation and assistance throughout the year and particularly during the closure of the accounts. To my own staff I would like to express my appreciation of their dedication and commitment.

Ian Jackson	**Gary Fairley**
Director Corporate Services	**Head of Finance and Human Resources**
23 June 2010	**28 September 2010**

(Ian Jackson was in post until 30th June. Gary Fairley assumed Section 95 responsibilities thereafter.)

Accounting Policies

1. Introduction

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009 (the SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee. Exceptions to this are stated in the Accounting Policies and notes to the core financial statements.

The accounting concepts of “materiality”, “accruals”, “going concern” and “primacy of legislative requirements” have been considered in the application of accounting policies. In this regard the materiality concept means that information is included where the information is of such significance as to justify its inclusion. The accruals concept requires the non-cash effects of transactions to be included in the financial statement for the year in which they occur, not in the period in which payment is made or income received. The going concern concept assumes that the Council will not significantly curtail the scale of its operations. Lastly, legislative requirements have priority over accounting principles in the event of conflict between legislation and the Accounting Code.

The accounts have been prepared on a historic cost basis, other than changes resulting from the revaluation of certain categories of fixed assets.

2. Changes in Accounting Policy

The 2009 Statement of Accounting Practice (the SORP) made a number of changes from its predecessor which is a result of a greater convergence between the SORP and the International Financial Reporting Standards (IFRS).

Treatment of assets relating to PPP projects

Property used in providing services under PPP contracts is now recognised as an asset on the Council’s balance sheet. As a result, the 2008/09 balance sheet has been restated to include certified valuations for PPP1 and PPP2 schools. The valuation basis of these schools is in line with the policy for valuing fixed assets explained on page 6. The value of schools recognised in the restated 2008/09 balance sheet is partly balanced by the recognition of a liability for the amounts due to the scheme operators to pay for these assets.

3. Accruals

The revenue and capital accounts have been prepared on an accruals basis in accordance with the SORP.

4. Provisions for bad and doubtful debts

Provision has been made in the respective income accounts for bad and doubtful debts.

5. Reserves

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. The Insurance fund will not be operated with effect from 1st April 2010.

6. Government Grants

Government grants have been accounted for on an accruals basis. Grants and developer or other contributions which have funded the acquisition or enhancement of fixed assets have been credited to the Government Grants and other Grants Deferred Account. The balance is released to revenue over the life of the asset taking into account depreciation.

7. Retirement Benefits

Midlothian Council participates in two different pension schemes which meet the needs of employees in particular services. Both the schemes provide members with defined benefits related to pay and services. The schemes are as follows:

Accounting Policies

Teachers
This is an unfunded scheme administered by the Scottish Government. The pension cost charged to the accounts is the contribution rate set by the Scottish Government on the basis of a notional fund.

Other employees
Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Superannuation Scheme.

The pension costs that are included in the Net Cost of Services in respect of these employees represent the cost associated with current service together with the capitalised pension costs relating to early retirements and redundancies which took place during the year. The difference between these costs and the actual contributions made to the Scheme, determined in accordance with relevant Government regulations, is recorded as an adjustment to arrive at the expenditure to be met from government grants and local taxation.

8. 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.

9. Overheads
The costs of support services are fully allocated to services. The allocations are made on bases appropriate to the service provided, in order to match costs to service usage.

10. Intangible Assets
The Council has recognised Intangible Assets in its Balance Sheet at net historic cost. Expenditure on the acquisition, creation or enhancement of intangible fixed assets has been capitalised on an accruals basis. Charges are made to the revenue accounts on a straight line basis over the economic life of the asset.

11. Tangible Fixed Assets
Fixed assets have been valued in accordance with CIPFA guidance and the Statement of Asset Valuation Principles and Guidance notes of the Royal Institution of Chartered Surveyors (RICS).

Council Houses are revalued each year using the Beacon principle based on valuations carried out by the District Valuer and the Council's Principal Estates Surveyor. The main valuation basis used is existing use value – social housing which is a change in estimation technique from 2008/09.

Land, operational and non-operational properties have been valued at the lower of net realisable value in current use, or at net current replacement cost. Community and Infrastructure assets are valued at depreciated historic cost.

Vehicles, plant and equipment have been valued by the Council at depreciated historic cost.

Charges are made to the revenue accounts for fixed assets in respect of depreciation. Depreciation charges have been calculated on a straight line basis for all operational assets with a finite useful life. The Council has not provided for depreciation on surplus assets which is not compliant with SORP.

Proceeds from the sale of assets are used to either fund capital expenditure or to reduce the Council's borrowing requirement. The net gain or loss on the disposal of a tangible fixed asset is shown in the Income and Expenditure Account and to comply with accounting practice it is a reconciling item in the Statements of Movement on the General Fund and Housing Revenue Account balances.

12. Operating Leases
Current annual operating lease rentals have been charged to revenue.

13. Investments
Non-cash investments are shown in the Balance Sheet at fair value.

Accounting Policies

14. Stock and work in progress
Stock and stores are valued at latest invoice price. This does not comply with the code of practice, which requires such items to be shown at the lower of cost and net realisable value. The difference is not considered to be material.

There is no work in progress included within the Balance Sheet as at 31 March 2010.

15. Public Private Partnership Schemes
The accounting treatment of the Public Private Partnerships for the provision of the Dalkeith Campus and for Stobhill, Gorebridge, Tynewater, Moorfoot, Loanhead and St Margaret's Campus, Lawfield and Strathesk Primary Schools is in accordance with International Financial Reporting Interpretations Committee (IFRIC) No. 12 – Service Concession arrangements.

16. Debt Redemption
The Council operates a Consolidated Loans Fund under the terms of the Local Government (Scotland) Act 1975. Capital payments made by services are financed from the Loans Fund and repayments are made on an annuity basis.

The difference between depreciation charged to service accounts and loan repayments is adjusted in the Statement of Movement on the General Fund Balance.

Gains or losses arising on the repurchase or early settlement of borrowing are recognised in the Income and Expenditure Account in the periods during which the repurchase or early settlement is made. Where the repurchase of borrowing is taken with a refinancing or restructuring option, gains or losses are recognised over the life of the replacement borrowing.

17. Interest Charges
Interest on revenue balances is charged or credited to revenue accounts in accordance with LASAAC Guidance Note 2.

18. Financial Assets
Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

19. Financial Liabilities
Financial Liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to net operating expenditure in the Income and Expenditure Account 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 discounts is respectively deducted from or added to the amortised cost of the new loan and the write-down to the Income and Expenditure account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure account, regulations allow the impact on the general fund balance to be spread over future years. The council has a policy of spreading gain / 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 Income and Expenditure account to the net charge against the general fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority 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 authority, that officer is the Director Corporate Services;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

The Director Corporate Services' Responsibilities

The Director Corporate Services is responsible for the preparation of the authority's statement of accounts in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2009 (the SORP).

In preparing this statement of accounts, the Director Corporate Services has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the SORP, except where stated in the policies and notes to the accounts.

The Director Corporate Services 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 Statements of Accounts present a true and fair view of the financial position of the Council at 31 March 2010 and its income and expenditure for the year then ended.

Signed:

Ian Jackson	**Gary Fairley**
Director Corporate Services	**Head of Finance and Human Resources**
23 June 2010	**28 September 2010**

(Ian Jackson was in post until 30th June. Gary Fairley assumed Section 95 responsibilities thereafter.)

Annual Governance Statement

Midlothian Council is responsible for ensuring that its business, and that of the group entities, is conducted in accordance with the law, its code of corporate governance and proper standards. This is so that public funds and assets at its disposal are 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 and adopt the following principles of corporate governance and assurance self-assessment. The self-assessment includes the following sources:

Financial Governance

- Financial Regulations and Directives;
- Independent Internal Audit and Audit Committee principles;
- Annual Assurance Statement in Internal Control;
- Standing Order 20 on contracts and procurement policies and procedures;
- Financial Management Policies and strategies;
- Financial Management and Budgeting / Budgetary Control arrangements;
- Fraud Policy;
- Asset Management Planning and Capital Investment Framework;
- External Audit reports on Financial Management and Governance; and
- Integrated Corporate and Financial Planning.

Non Financial Governance

- Standards in Public Life and Statutory role of Monitoring Officer;
- Project Management Framework;
- Leadership and Change Management;
- Policies and Strategies;
- Preparation for new legislation;
- Control of Risk and Opportunity in corporate priorities, projects and services;
- Preparation for external inspection;
- Planning and Performance Management and Business Transformation programme;
- Community Planning and Single Outcome Agreement;
- Business Continuity Management;
- Feedback and Complaints systems;
- Human Resources Policies; and
- Scrutiny and Challenge.

Internal controls, whether of a financial or non financial nature, should give reasonable, but not absolute, assurances that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected in a timely period and corporate policy aims and objectives are being achieved. Chief Officials are responsible for internal financial control and other control within their divisions and within group entities. Internal Audit is an independent appraisal function, with reporting lines to the Director, Corporate Services and the Chief Executive and its strategic and annual audit plans are targeted at the key risk areas above.

A self-assessment of the effectiveness of governance is carried out in the areas detailed above resulting in this Assurance Statement. A review of Midlothian Council's assurance system, across important elements of the Council's business, provides elected members and senior management with a reliable system to assess the adequacy of internal control and governance.

Annual Governance Statement

Governance Improvements highlighted in 2008/09 which were completed or progressed during 2009/10.

- As evidenced in a follow up audit recently concluded, certain operations were able to improve their internal control environment;
- Financial Directives were reviewed and updated, ready for distribution and training in 2010/11;
- The Council obtained permission to capitalise some of its equal pay liabilities;
- The Scottish Housing Regulator improvement plan was progressed and homelessness issues addressed;
- Further improvements were made regarding information and data security;
- Improvement Plans were subsumed into a Business Transformation Programme with appropriate governance and funding; and
- A Scottish Future Trust partnership solution was progressed for the replacement of Lasswade High School.

Governance Improvements identified during 2009/10 to be progressed during 2010/11.

The Council acknowledges the need for continuous improvement and, as a matter of course, is dealing with the following control matters, and these are being further progressed in 2010/11 as follows:

- The economic climate is requiring robust financial governance and the ongoing achievement of efficiencies;
- The results of the Internal Audit follow up of previously made recommendations will need to be reviewed to establish whether or not the internal control environment has improved in the operations under review;
- Further efficiencies and improvements through the Procurement strategy;
- Achieving the objectives in the timeframes set in the Business Transformation Programme;
- Embedding a new organisation and management structure;
- Ensuring that the corporate option appraisal system is used corporately;
- Closing the gap further on residual risk and risk appetite / tolerance levels;
- Preparation for the Best Value 2 inspection; and
- Realigning Business Continuity Management to the new organisation structure.

On the basis of the Council's assurance system, and the elements of governance at our disposal, we are satisfied that overall, Midlothian's corporate governance arrangements are of a satisfactory standard and that we are aware of areas where improvement is required. Steps will be taken in forthcoming years to address, through appropriate actions, the above matters and to continue to advance our corporate governance and continuous improvement arrangements.

Signed :

Derek Milligan
Leader of the Council
28 September 2010

Kenneth Lawrie
Chief Executive
28 September 2010

Income and Expenditure Account

For the year ended 31 March 2010

This Account summarises the resources that have been generated and consumed in providing services and managing the Council during the year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

2008/09 Net Expenditure **£000** **Restated**	Continuing Operations	Notes	Gross Expenditure **£000**	Gross Income **£000**	2009/10 Net Expenditure **£000**
99,304	Education Services		97,925	4,347	93,578
41,886	Social Work		52,606	10,684	41,922
11,401	Culture and Related Services		15,821	5,623	10,198
9,249	Roads and Transport Services		10,628	1,434	9,194
7,697	Police Services		8,291	345	7,946
7,881	Environmental Services		10,107	1,694	8,413
2,670	Planning and Development Services		5,978	2,998	2,980
2,998	Fire Services		2,959	0	2,959
7,480	Housing Revenue Account		26,609	16,466	10,143
9,050	Other Housing Services		30,484	21,520	8,964
3,304	Corporate & Democratic Core		4,075	813	3,262
5,839	Central Services to the Public		13,401	1,117	12,284
(634)	Non-distributable Costs		1,370	0	1,370
208,125	**Net Cost of Services**		**280,254**	**67,041**	**213,213**
110	Loss on Disposal of Fixed Assets				1,825
(339)	Deficit / (Surplus) on Trading undertakings not included in the Net Cost of Services	9			(510)
11,746	Interest Payable and similar charges				12,406
0	Interest Received				(573)
2,363	Investment losses				0
(2,414)	Interest and Investment Income				(526)
99	Pensions Interest Cost and Expected Return on Pension Assets	4			3,366
219,690	**Net Operating Expenditure**				**229,201**
(36,259)	Council Tax				(36,733)
(116,884)	Scottish Government Grant				(120,170)
(30,351)	Non-Domestic Rates				(33,396)
36,196	**Net Deficit/(Surplus) for the year**				**38,902**

The balance on this account is not in accordance with the statutory provisions that specify the net expenditure that Councils need to take into account when setting Council Tax. In order to give a full presentation of the financial performance of the Council during the year and the actual spending power carried forward, the balance on this account needs to be reconciled in the Statement of Movement on the General Fund Balance (on the following page) to the amount established by law.

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed;
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to funds and reserves. This reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the General Fund.

2008/09 £000 Restated		**2009/10 £000**
36,196	**Deficit/(Surplus) for the year on the Income and Expenditure Account**	**38,902**
(26,554)	Net additional amount required by statute and non-statutory proper practices to be taken into account when determining the surplus or deficit on the General Fund for the year	(45,105)
9,642	**Reduction/(Increase) in General Fund Balance for the Year**	**(6,203)**
(11,764)	Balance on General Fund brought forward	(2,122)
(2,122)	**Balance on General Fund carried forward**	**(8,325)**

Reconciliation of the Balance on the Income and Expenditure Account to the General Fund Balance

2008/09 **£000**	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on General Fund Balance for the year	2009/10 **£000**
0	• Amortisation of Intangible Assets (note 24)	(77)
(38,808)	• Depreciation and impairment of fixed assets (note 19)	(50,708)
2,631	• Government Grants Deferred amortization	3,338
(110)	• Net surplus/(losses) on sale of fixed assets	(1,825)
(646)	• Financing Costs	(656)
(5,997)	• Net charges made for retirement benefits in accordance with FRS 17 (note 4)	(9,932)
(42,930)		**(59,860)**
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year	
7,425	• Loans fund principal repayments	7,352
755	• Statutory provision for repayment of debt (note 10)	737
0	• Equal Pay Capitalisation	(2,142)
9,373	• Employer's pension contributions (note 4)	9,932
17,553		**15,879**
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
(1,374)	• Transfer to / (from) Capital Fund	(1,367)
(1,145)	• Transfer to / (from) Insurance Fund (note 13)	(634)
488	• Transfer to / (from) Repairs and Renewals Fund	259
854	• Increase or (decrease) in the Housing Revenue Account balance for the year	618
(26,554)	**Net additional amount required to be debited or (credited) to the General Fund Balance for the year**	**(45,105)**

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

The gain on revaluation of fixed assets and actuarial gain on pension assets and liabilities represent gains from re-measuring certain assets and liabilities to the current value at the balance sheet date and do not contribute to the resources that can be used to fund the Council's services.

2008/09 £000 Restated		**2009/10 £000**
36,196	**Deficit/(Surplus) on the Income and Expenditure Account for the year**	**38,902**
(46,391)	Deficit/(Surplus) on the revaluation of fixed assets (note 19)	(172,792)
33,280	Actuarial loss/(gain) on pension assets and liabilities (note 4)	66,582
(852)	(Gain) / Loss arising on Financial Instruments Adjustment Account	(853)
(612)	Deficit/(Surplus) arising on revaluation of available-for-sale financial assets	0
21,621	**Total Recognised Losses/(Gains) for the Year**	**(68,161)**

Balance Sheet

As at 31 March 2010

The Balance Sheet summarises in its top half all of the assets that the Council owns and the liabilities that it owes to others. The bottom half sets out how the net assets of the Council are allocated between usable resources, resources that have been set aside to finance capital expenditure, unrealised gains from increases in asset values and statutory reserves needed to comply with local authority accounting.

2008/09 £000 Restated		Notes	2009/10 £000	2009/10 £000
319	Intangible Assets	24		417
	Tangible Fixed Assets			
	Operational Assets			
439,742	Council Houses	19,20	621,129	
266,804	Other Land and Buildings	19,20	276,740	
7,618	Vehicles, Plant and Equipment	19,20	5,995	
21,270	Infrastructure Assets	19,20	20,086	
806	Community Assets	19,20	889	
736,240				**924,839**
	Non-operational Assets			
24,772	Investment Properties	19,20	30,622	
51,490	Assets under Construction	19,20	20,288	
24,656	Surplus Assets, held for disposal	19,20	12,743	
100,918				63,653
962	Long-term Investments	18		962
1,089	Long-term Debtors	28		1,378
839,528				**991,249**
	Current Assets			
646	Stocks and Work in Progress		618	
33,796	Debtors	25	36,757	
(22,511)	Less: Bad Debt Provision	25	(23,243)	
11,285	Net Debtors	25	13,514	
39,727	Investments	35	10,051	
132	Cash and Bank	35	6,033	
51,790				**30,216**
	Current Liabilities			
35,611	Borrowing repayable on demand or within 12 months	35	40,800	
28,150	Creditors	26	26,224	
276	Bank Overdraft		1,609	
64,037				**68,633**
827,281	**Total Assets less Current Liabilities**			**952,832**

Balance Sheet

As at 31 March 2010

2008/09 £000 Restated		Notes	2009/10 £000	2009/10 £000
142,210	Borrowing repayable within a period in excess of 12 months	35		131,280
62,558	Deferred Liabilities			61,821
50,726	Government and other Grants Deferred			56,217
42,676	Liability related to Defined Benefit Pension Scheme	4		109,258
8,078	Other Provisions	12,13,27		5,062
521,033	**Total Assets less Liabilities**			**589,194**
	Financed By:			
410,282	Capital Adjustment Account	29		376,615
142,748	Revaluation Reserve	29		304,516
612	Available-for-sale Financial Instruments Reserve	18,29		612
(4,130)	Financial Instruments Adjustment Account	29,35		(3,934)
(42,676)	Pension Reserve	4,29		(109,258)
634	Insurance Fund	13,29		0
1,089	Repairs and Renewals Fund	29		1,348
10,352	Housing Revenue Account Reserve	29		10,970
2,122	General Fund Reserve	29		8,325
521,033	**Total Balances and Reserves**	22		**589,194**

The unaudited accounts were issued on 23June 2010 and the audited accounts were authorised for issue on 28 September 2010.

Signed:

Ian Jackson	**Gary Fairley**
Director Corporate Services	**Head of Finance and Human Resources**
23 June 2010	**28 September 2010**

(Ian Jackson was in post until 30th June. Gary Fairley assumed Section 95 responsibilities thereafter.)

Cash Flow Statement for the Year ended 31 March 2010

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. For the purpose of this statement, cash is defined as cash-in-hand and deposits repayable on demand less overdrafts repayable on demand.

2008/09 £000 Restated	**Revenue Activities**	**Notes**	**2009/10 £000**	**2009/10 £000**
	Cash Outflows			
120,878	Cash paid to and on behalf of employees		119,124	
112,510	Other operating cash payments		112,722	
8,771	Housing benefit paid out		10,781	
242,159				242,627
	Cash Inflows			
(7,357)	House rents (after rebates)		(6,587)	
(31,838)	Council tax and community charge		(30,947)	
(30,415)	National non-domestic rate receipts from national pool		(33,464)	
(116,884)	Scottish Government Grant	39	(120,170)	
(18,640)	DWP housing benefit grants	39	(23,336)	
(5,594)	Other government grants	39	(4,623)	
(15,935)	Cash received for goods and services		(18,712)	
(23,780)	Other operating cash receipts		(17,175)	
(250,443)				(255,014)
(8,284)	**Net Cash Inflow from Revenue Activities**	36		**(12,387)**
	Returns on Investment and Servicing of Finance			
6,981	Interest paid		5,905	
5,327	Interest element of finance lease rental payments		5,315	
				11,220
(3,270)	Interest received			(573)
	Capital Activities			
	Cash Outflows			
69,399	Capital expenditure on fixed assets			30,797
	Cash Inflows			
(5,494)	Sale of fixed assets		(2,229)	
(8,146)	Capital grants received		(6,372)	
(2,020)	Developer contributions		(731)	
(506)	Other capital cash receipts		(494)	
(16,166)	**Net Cash Inflow from Capital Activities**			(9,826)
53,987	**Net Cash Outflow/(Inflow) before Financing**	37		**19,231**
	Management of Liquid Resources			
(12,626)	Net increase/(decrease) in short term deposits			(30,277)
	Financing			
	Cash Outflows			
32,475	Repayment of amounts borrowed	38		40,142
755	Capital element of finance lease rental payments			737
	Cash Inflows			
(54,800)	New loans raised			(34,400)
19,791	**Decrease/(Increase) in Cash**	38		**(4,567)**

Notes to the Core Financial Statements

1. Prior Year Adjustments

Comparative figures for 2008/09 have been re-stated to reflect the changes in accounting policies detailed on page 5 of the accounts. The impact on the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses and the Balance Sheet are shown below.

Income and Expenditure Account and Statement of Movement on the General Fund Balance

	2008/09 Audited Accounts £000	PPP Schemes £000	2008/09 Restated Accounts £000
Education	100,102	(798)	99,304
Interest Payable	6,419	5,327	11,746
Net Deficit/(Surplus) for the year	31,668	4,528	36,196
Depreciation and Impairment	(35,411)	(3,397)	(38,808)
Loans Fund Principal	7,211	214	7,424
Statutory Provision for Repayment of Debt	0	755	755
CFCR	2,375	(2,375)	0
Transfer from Capital Fund	(1,160)	(214)	(1,374)
Transfer to Repairs and Renewals Fund	0	488	488
Balance on General Fund carried forward	2,122	0	2,122

Statement of Total Recognised Gains and Losses

	2008/09 Audited Accounts £000	PPP Schemes £000	2008/09 Restated Accounts £000
Deficit/(surplus) on the Income and Expenditure Account for the year	31,668	4,528	36,196
Deficit/(surplus) on the revaluation of fixed assets	(48,275)	1,884	(46,391)
Total Recognised Losses/(Gains) for the Year	15,209	6,412	21,621

Balance Sheet

	2008/09 Audited Accounts £000	PPP Schemes £000	2008/09 Restated Accounts £000
Other Land and Buildings	197,742	69,062	266,804
Long Term Debtors	14,006	(12,917)	1,089
Deferred Liabilities	0	(62,558)	(62,558)
Capital Adjustment Account	(417,784)	7,502	(410,282)
Repairs and Renewals Fund	0	(1,089)	(1,089)

2. Operating Leases

The Council uses assets financed under the terms of an operating lease. The amount charged to the revenue account under these arrangements in the year was £0.734 million (2008/09 £0.740 million). This all related to Vehicles, Plant and Equipment. Future cash payments under these leases within 1 year is £0.531 million (2008/09 £0.529 million), within 2 to 5 years is £0.402 million (2008/09 £0.530 million) and over 5 years is nil (2008/09 £0.061 million).

Notes to the Core Financial Statements

3. Agency Income and Expenditure

Agency arrangements operate in certain services under which the Council undertakes work on behalf of another body for which it is reimbursed, or reimburses other bodies for undertaking work which is properly the function of the Council.

The main items of agency expenditure and income were:

	2009/10	2008/09
Expenditure	**£000**	**£000**
Payments to other Local Authorities in respect of:		
Social Work services for Midlothian clients	1,059	1,179
Services for Additional Support Needs pupils	231	212
Pentland Hills Regional Park	90	75
Non Domestic Rates collection services	59	71
Childcare services	41	35
Sample analysis	28	35
Taxi inspections	28	32
Mortuary Services	28	7
Visually impaired service	29	29
Other	92	83
Payments made to Health Boards in respect of:		
Speech and Language Service	195	186
	1,880	**1,944**
Income		
Receipts from other Local Authorities in respect of:		
Social Work services	277	203
Additional Support Needs pupils	152	283
Audiology service	70	68
Receipts from Scottish Water for tax collection	215	210
Receipts from Housing Associations in respect of:		
Social Work services	10	18
	724	**782**

4. 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 FRS 17 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 FRS 17.

Notes to the Core Financial Statements

In 2009/10 the Council paid £5.164 million (2008/09 £4.594 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 14.9% (2008/09 13.5%).

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 FRS 17 – Retirement Benefits.

In 2009/10 the Council paid an employee contribution of £9.932 million (2008/09 £9.373 million) into the Lothian Pension Fund, representing 21.8% (2008/09 21.3%) of pensionable pay. This is the expenditure met from government grants and local taxation. 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 2008, the funding level was 85% 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 2009/10 was 330% of employees contributions.

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 Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

Income and Expenditure Account

	2009/10 £000	2008/09 £000
Net cost of services:		
Current Service Cost	5,111	5,898
Past Service Costs	1,442	0
Curtailments	13	0
Net operating expenditure:		
Interest cost	15,144	16,019
Expected return on scheme assets	(11,778)	(15,920)
Net charge to Income and Expenditure Account	**9,932**	**5,997**

Statement of Movement in the General Fund Balance

Reversal of net charges made for retirement benefits in accordance with FRS 17	(9,932)	(5,997)
Employers contributions payable to pension fund	9,932	9,373

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £66.582 million (2008/09 £33.280 million) were included in The Statement of Total Recognised Gains and Losses.

Notes to the Core Financial Statements

Assets and Liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2009/10 £000	2008/09 £000
Opening Balance	219,692	233,398
Current Service Costs	5,111	5,898
Interest Cost	15,144	16,019
Contribution by Members	2,877	2,675
Actuarial losses/(gains)	116,538	(27,549)
Past Service Costs / (Gains)	1,442	0
Losses/(gains) on curtailments	13	0
Estimated Unfunded Benefits Paid	(849)	(852)
Estimated Benefits Paid	(9,031)	(9,897)
Balance at 31 March 2010	**350,937**	**219,692**

Reconciliation of fair value of the scheme assets:

	2009/10 £000	2008/09 £000
Opening Balance	177,015	220,625
Expected return on Assets	11,778	15,920
Contributions by Members	2,877	2,675
Contributions by the Employer	9,083	8,521
Contribution in respect of unfunded benefits	849	852
Actuarial gains/(losses)	49,956	(60,829)
Unfunded Benefits paid	(849)	(852)
Benefits paid	(9,031)	(9,897)
Balance at 31 March 2010	**241,678**	**177,015**

Scheme History

	2009/10 £000	2008/09 £000	2007/08 £000	2006/07 £000	2005/06 £000
Present value of liabilities	(350,936)	(219,691)	(233,398)	(260,371)	(262,508)
Fair Value of Assets	241,678	177,015	220,625	221,463	200,785
Surplus/(deficit)	**(109,258)**	**(42,676)**	**(12,773)**	**(38,908)**	**(61,723)**

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £109.258 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the deficit on the pension fund will be made good by increased contributions over a 20 year period.

Notes to the Core Financial Statements

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the protected unit 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 2008.

The main assumptions used by the actuary have been:

	2009/10	2008/09
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.8%	7.0%
Bonds	5.0%	5.4%
Property	5.8%	4.9%
Cash	4.8%	4.0%
Longevity at 65 for current pensions:		
Men (years)	20.8	19.8
Woman (years)	24.1	22.8
Longevity at 65 for future pensions:		
Men (years)	22.3	21.0
Woman (years)	25.7	24.0
Inflation / Pension Increase Rate	3.8%	3.1%
Salary Increase Rate	5.3%	4.6%
Expected Return on Assets	7.3%	6.6%
Discount Rate	5.5%	6.9%
Take up of options to convert Annual Pension into Retirement Lump Sum	50%	50%

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

	31/03/2010	31/03/2009
Equity Investments	79%	79%
Bonds	8%	11%
Other Assets	13%	10%
	100%	**100%**

History of experience gains and losses

The actuarial gains identified as movements in the Pension Reserve in 2009/10 can be analysed into the following categories, measured as a percentage of assets and liabilities at 31 March 2010.

	2009/10 %	2008/09 %	2007/08 %	2006/07 %	2005/06 %
Differences between the expected and actual return on assets	(20.7)	(34.4)	(10.1)	0.6	15.9
Experience gains and losses on liabilities	0.1	3.6	0.1	0.2	0.5

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

- Lothian and Borders Fire Board;
- Lothian and Borders Police Board;
- Lothian Valuation Joint Board.

Further information regarding these deficits can be found in the Group Accounts.

Notes to the Core Financial Statements

5. Members Allowances

The total salaries paid to elected members during the year was £0.324 million (2008/09 £0.331 million) and the total expenses paid during the year was £0.013 million (2008/09 £0.014 million). No other allowances were paid to elected members during the year.

6. Number of Employees

At the end of the year the Council had 3,748 Full Time Equivalent employees (2008/09 3,722).

7. Employees' Remuneration

The number of employees during the year whose remuneration was £50,000 or greater was as follows:

	2009/10	**2008/09**
£50,000 to £59,999	53	25
£60,000 to £69,999	9	13
£70,000 to £79,999	7	4
£80,000 to £89,999	1	0
£90,000 to £99,999	5	5
£100,000 to £109,999	0	1
£110,000 to £119,999	0	0

8. Related Parties

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

	2009/10	**2008/09**
	£000	**£000**
Lothian and Borders Police Board	7,946	7,697
Lothian and Borders Fire Board	2,958	2,998
Lothian Valuation Board	555	545
Lothian Pension Fund	12,033	11,195
Miller Homes for SDL Shares	0	706

Creditors within the Balance Sheet include £0.934 million (2008/09 £0.750 million) due to Lothian Pension Fund.

Notes to the Core Financial Statements

9. Statutory Trading Accounts

The Local Government in Scotland Act 2003 repealed Compulsory Competitive Tendering and set out a requirement for Statutory Trading Accounts to be maintained for Significant Trading Operations and that they should break even over a three-year rolling period. The Council maintains Statutory Trading Accounts for the following three activities which it considers to be Significant Trading Operations. For the rolling period 2007/08 to 2009/10 Building Maintenance and Roads Maintenance achieved the required financial objective.

	2009/10 £000	2008/09 £000	2007/08 £000	Cumulative £000
Building Maintenance				
Turnover	6,976	6,339	5,780	
Surplus/ (Deficit)	474	397	(202)	**669**
Less cost of capital				**(28)**
Revised Surplus				**641**
Roads Maintenance				
Turnover	4,476	5,909	5,697	
Surplus/ (Deficit)	104	203	207	**514**
Less cost of capital				**(89)**
Revised Surplus				**425**
Investment Properties				
Turnover	722	691	788	
Surplus / (Deficit)	36	(58)	640	**618**
Less cost of capital				**(879)**
Revised Deficit				**(261)**

The surplus on Statutory Trading Activities identified on the Income and Expenditure Account includes Building Maintenance and Investment Properties totalling £0.510 million. In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009, Roads Maintenance is included within Net Cost of Services on the Income and Expenditure Account as part of Roads and Transportation Services. The cost of capital is illustrated above but is not reflected in the Income and Expenditure Account.

The cumulative three year loss in the Investment Properties trading account is due to impairments of £0.592m in 2008/09 and £0.503 million in 2009/10. Without these the trading account would show a three-year surplus of £0.834 million.

10. Public Private Partnership

The Council has entered into two Public Private Partnerships. The first is for the provision and facilities management of the Dalkeith School Campus and is a 30 year contract with Dalkeith SPV Ltd. When the agreement ends in 2034 the Campus facilities will transfer to the Council with a guaranteed maintenance-free life of five years. The second is a contract with Midlothian Schools Ltd for the provision and facilities management of Stobhill, Gorebridge, Tynewater, Moorfoot, Loanhead and St Margaret's, Lawfield and Strathesk Primary Schools. When the agreement ends in 2037 the facilities will transfer to the Council in a useable condition as defined by the contract.

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

The value of assets held under PFI arrangements at 31 March 2010 is £67.765 million (2008/09 - £69.062 million). The movement is depreciation of £1.297 million. There is a deferred liability at 31 March 2010 for the financing of these assets of £61.821 million (2008/09 £62.558 million). Details of payments to be made under PFI arrangements are:

	Dalkeith Campus			Primary Schools		
Period	Liability	Interest	Service Charge	Liability	Interest	Service Charge
	£000	£000	£000	£000	£000	£000
Within 1 year	310	2,742	1,539	474	2,551	1,466
Within 2 to 5 years	1,589	10,619	6,552	2,149	9,843	6,375
Within 6 to 10 years	3,088	12,171	9,154	3,530	11,321	9,092
Within 11 to 15 years	5,022	10,237	10,357	5,008	9,834	10,299
Within 16 to 20 years	8,168	7,091	11,718	7,120	7,722	11,652
Within 21 to 25 years	8,662	2,119	9,205	10,125	4,718	13,184
Within 26 to 30 years				6,578	881	7,278

11. Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice is £0.250 million (2008/09 £0.252 million). No fees were paid in respect of other services provided by the appointed auditor.

12. Equal Pay

Included in the Net Cost of Services is a reduction in expenditure of £1.372 million (2008/09 increase of £6.006 million) in respect of providing for settlement of Equal Pay claims under the Equal Pay Act 1970. At 31 March 2010 £7.658 million of claims have been settled and an estimate of £4.630 million for outstanding claims has been provided for in other provisions.

In 2009/10 the Scottish Government introduced a scheme to allow local authorities to borrow to help them manage equal pay costs. Midlothian Council was granted consent of £9.091 million for 2009/10 and 2010/11. In 2009/10 £2.142 million was capitalised.

13. Insurance Provisions

In 2009/10 the Council operated an Insurance Fund in accordance with section 13 of the Local Government etc (Scotland) Act 1994 which is earmarked for insurance purposes. In January 2010 Council agreed to discontinue with an Insurance Fund beyond the current financial year. As a result the balance of the fund of £0.634 million was used in full to fund insurance costs in 2009/10.

A provision for potential uninsured losses arising from claims is also made and this amounted to £0.340 million at 31 March 2009 and £0.432 at 31 March 2010 and is shown in other provisions.

14. Landfill Allowance Trading Scheme

In 2009/10 the Council sent 16,250 tonnes of biodegradable municipal waste to landfill, 5,665 tonnes less than the Council’s allowance of 21,915 tonnes. In Scotland the landfill penalty scheme has been suspended and the trading of allowances has not commenced. Consequently, the value of surplus allowances cannot be measured and is not recognised as an asset in the Council’s accounts.

Notes to the Core Financial Statements

15. Capital Expenditure

Restated 2008/09 £000	Service Summary of Gross Capital Expenditure	2009/10 £000
	General Fund Services:	
20,046	Education	7,489
765	Social Work	238
2,614	Roads and Transportation Services	417
390	Planning and Development Services	828
218	Cultural and Related Services	112
2,075	Other Services	1,681
26,108	**General Fund Services Total**	**10,765**
42,697	**Housing Revenue Account**	**22,670**
68,805	**Total Capital Expenditure**	**33,435**

2008/09 £000	Analysis of Capital Expenditure and Capital Financing	2009/10 £000
	Fixed Assets:	
6,068	Site and Building Acquisitions	3,981
50,538	Building Works	25,000
2,614	Road Works	309
6,501	Professional Fees	1,839
728	Vehicles and Plant	56
2,356	Other	2,250
68,805	**Fixed Assets Total**	**33,435**
68,805	**Gross Capital Expenditure Total**	**33,435**
	Capital Financing:	
4,076	Capital Receipts – Sale of Council Houses	821
6,098	Government Grants	7,604
2,035	Contribution from Other Bodies	731
506	Other receipts	494
56,090	Advances from Loans Fund	23,785
68,805	**Capital Financing Total**	**33,435**

Notes to the Core Financial Statements

16. Capital Receipts
Capital receipts from the disposal of land and buildings, equipment or vehicles may be utilised to finance capital expenditure or to redeem outstanding debt.

2008/09 £000	Capital Receipts from the disposal of fixed assets	2009/10 £000
	Gross Capital Receipts during year:	
4,076	Sale of Council Houses	821
1,253	Other Land and Buildings	1,347
86	Rights over Land	0
35	Vehicles	20
5,450	**Gross Capital Receipts Total**	**2,188**
	Capital Receipts:	
4,076	Utilised in the year	821
1,374	Retained and transferred to the Capital Fund	1,367
5,450	**Capital Receipts Applied Total**	**2,188**

17. Related Companies

Pacific Shelf 826 Limited
Midlothian Council is the sole shareholder in Pacific Shelf 826 Ltd, a company incorporated on 31 March 1999 and having its registered office at Midlothian House, Buccleuch Street, Dalkeith. The purpose of the company is to promote Economic Development. The Council's shareholding comprises 100,000 £1 ordinary shares. The Council has provided for the retained losses.

The most recent results of the company are as follows:

	2009/10 £000	2008/09 £000
Turnover	2	2
Loss	3	53
Retained losses	1,212	1,209
Net assets at end of year	(522)	(519)

In 2008/09 the Council wrote off its investment in the company. The formality of mirroring this treatment in the company has not yet been completed so is not reflected in the results above.

Shawfair Developments Limited
Midlothian Council has a 50% shareholding in Shawfair Developments Limited, having its registered office at City Chambers, High Street, Edinburgh. The purpose of the company is to provide a vehicle to develop its shareholders' interest in the South-East Wedge. The Council's shareholding comprises 100 £1 "A" shares.

In 2008/09 the council wrote off its investment in SDL. Due to the fact that the company was effectively dormant during 2009/10 and that the council's investment is fully written off, the results in 2009/10 are not consolidated into the council's group accounts.

Notes to the Core Financial Statements

18. 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 Council's shareholding comprises 350,000 £1 ordinary shares. The fair value of this investment is estimated to be £0.962 million.

The most recent results of the company are as follows:

	Year to 31 December 2009 £000	**Year to 31 December 2008 £000**
Turnover	112,158	103,576
Profit before taxation	8,494	979
Taxation	2,753	(92)
Profit after taxation	5,741	1,071
Ordinary dividend	2,198	2,198
Transfer to / (from) reserves	1,346	(1,127)
Net assets at end of year	11,851	43,596

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

Notes to the Core Financial Statements

19. Movement in Fixed Assets

	Houses £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Restated Gross Book value as at 31 March 2009	**446,444**	**295,595**	**17,873**	**33,335**	**809**	**100,918**	**894,974**
Additions	13,317	8,293	744	974	0	9,932	33,260
Disposals	(2,297)	0	(446)	0	0	(1,733)	(4,476)
Revaluations and Restatements	152,158	6,662	(1,702)	0	169	(4,217)	153,070
Impairments	0	(11,036)	0	0	(79)	(10,205)	(21,320)
Reclassifications	21,876	9,132	0	0	0	(31,008)	0
Gross Book value at 31 March 2010	**631,498**	**308,646**	**16,469**	**34,309**	**899**	**63,687**	**1,055,508**
Restated Depreciation as at 31 March 2009	**(6,702)**	**(28,791)**	**(10,255)**	**(12,065)**	**(3)**	**0**	**(57,816)**
Depreciation for the year	(14,209)	(15,546)	(2,462)	(2,158)	(7)	0	(34,382)
Write back depreciation on upward revaluations	10,525	7,392	1,805	0	0	0	19,722
Write back depreciation on impairments	0	4,994	0	0	0	0	4,994
Write back depreciation on disposals	28	0	438	0	0	0	466
Reclassifications	(11)	45	0	0	0	(34)	0
Depreciation as at 31 March 2010	**(10,369)**	**(31,906)**	**(10,474)**	**(14,223)**	**(10)**	**(34)**	**(67,016)**
Net book value as at 31 March 2009	**439,742**	**266,804**	**7,618**	**21,270**	**806**	**100,918**	**837,158**
Net book value as at 31 March 2010	**621,129**	**276,740**	**5,995**	**20,086**	**889**	**63,653**	**988,492**

Non Operational Assets

	Assets Under Construction £000	Investment Properties £000	Surplus Assets £000	Total £000
Gross Book value as at 31 March 2009	**51,490**	**24,772**	**24,656**	**100,918**
Additions	9,118	326	488	9,932
Disposals	0	(418)	(1,315)	(1,733)
Revaluations and Restatements	0	(758)	(3,459)	(4,217)
Impairments	0	(3,746)	(6,459)	(10,205)
Reclassifications	(40,316)	10,446	(1,138)	(31,008)
Gross Book Value at 31 March 2010	**20,292**	**30,622**	**12,773**	**63,687**
Net Book Value as at 31 March 2009	**51,490**	**24,772**	**24,656**	**100,918**
Net Book Value as at 31 March 2010	**20,292**	**30,622**	**12,739**	**63,653**

Notes to the Core Financial Statements

20. Fixed Asset Valuation

The following statement details the progress of the Council's rolling programme for the revaluation of fixed assets

	Houses £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Valued at Historic Cost	82,487	41,466	16,469	34,309	165	21,097	195,993
Valued at Current Value in:							
2009/10	548,913	43,064	-	-	111	21,251	613,339
2008/09	-	163,143	-	-	-	11,101	174,244
2007/08	98	41,176	-	-	623	8,882	50,779
2006/07	-	2,248	-	-	-	293	2,541
2005/06	-	17,549	-	-	-	1,063	18,612
Total	**631,498**	**308,646**	**16,469**	**34,309**	**899**	**63,687**	**1,055,508**

Houses are revalued using the Beacon principle based on valuations carried out by the District Valuer and the Council's Principal Estates Surveyor, M Kenmure RICS. The main valuation basis used is existing use value – social housing which is one of the recommended valuation techniques under the IFRS code and is a change in estimation technique from 2008/09. Any new build housing and newly purchased houses are valued at historic cost.

For other Land and Buildings there is a rolling programme of revaluation with assets revalued on a five-year cycle as detailed above. These valuations, except for land at Shawfair, are carried out by the Council's Principal Estates Surveyor, M Kenmure, RICS. The valuation of land at Shawfair was completed by GVA Grimley Ltd. Properties have been valued in accordance with CIPFA guidance and the Statement of Asset Valuation Principles and Guidance notes of the RICS.

Valuations were carried out at 1st April 2009 giving a total revaluation of £156.466 million. Land, operational and non-operational properties have been valued on the basis of net realisable value in existing use or at net current replacement cost. Community and infrastructure assets are valued at depreciated historic cost. Vehicles, plant and equipment have been valued at depreciated historic cost.

Depreciation charges have been calculated on a straight line basis for all operational assets with a finite useful life. The range of useful lives for each class of asset is as follows: Housing stock (up to 60 years), Community assets (0 to 50 years), Infrastructure (15 years), Non operational assets (0 to 75 years), Other land and Buildings (0 to 50 years) and Vehicles, Plant and Equipment (0 to 10 years). Expenditure on the replacement of component parts of assets (Heating, Ventilation & Electrical systems, Windows & Doors, Roofs, Kitchens etc) are depreciated over the useful life of the component part (8 to 25 years). Depreciation has not been provided for surplus assets.

The depreciation provision at the year end was £67.016 million (2008/09 £53.701 million). Downward revaluations of fixed assets have offset previous upward revaluations held in the Revaluation Reserve. Where there are no previous upwards revaluations or the balance in the Revaluation reserve is insufficient downward revaluations been charged to the Income and Expenditure Account.

21. Commitments under Capital Contracts

At the end of the year, the Council was contractually committed to capital works which amounted to approximately £12.789 million (2008/09 £9.620 million).

Notes to the Core Financial Statements

22. Analysis of net assets employed

	2009/10 £000	Restated 2008/09 £000
General Fund	280,714	185,911
Housing Revenue Account	308,480	335,122
Total	**589,194**	**521,033**

23. Information on number of assets held

	As at 31 March 2010	Restated As at 31March 2009
Council Houses	**6,511**	**6,382**
Operational Buildings		
- Social Work Homes etc	10	10
- Leisure Centres	11	11
- Libraries	9	9
- Nursery Schools	2	5
- Primary Schools	30	30
- Secondary Schools	6	6
- Offices	24	24
- Depots	5	5
- Car Parks	11	11
Operational Equipment		
- Vehicles & Plant	388	400
Infrastructure Assets		
- Highways (km)	649	646
- Bridges	220	215
- Footpaths (km)	638	635
Community Assets		
- Parks	43	43
- Cemeteries	25	28

24. Intangible Assets

Software licences are held for a number of systems operated by the Council which cost £0.175 million in 2009/10 (2008/09 £0.319 million). This cost is being written off over 3 or 5 years depending on the life of the licence. £0.077 million has been written off in 2009/10.

Notes to the Core Financial Statements

25. Debtors

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

Restated 2008/09 £000	Restated 2008/09 £000		2009/10 £000	2009/10 £000
21,971		Council Tax and Community Charge	23,213	
(21,016)		Less: bad debt provision	(21,611)	
	955			1,602
1,574		House Rents	1,641	
(428)		Less: bad debt provision	(390)	
	1,146			1,251
	55	Grants		245
8,481		External Debtor accounts and other Income due	9,733	
(1,067)		Less: bad debt provision	(1,242)	
	7,414			8,491
	1,715	VAT Recoverable		1,925
	11,285	**Net Debtors**		**13,514**

26. Creditors

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

2008/09 £000		2009/10 £000
6,073	Payroll Costs Due	5,553
4,932	Payments due under Capital Contracts	5,887
17,145	Sundry Creditors	14,784
28,150	**Total Creditors**	**26,224**

27. Other Provisions

These include a provision of £0.432 million (2008/09 £0.340 million) in respect of the self-insured element of public and employers' liability claims and a provision of £4.630 million (2008/09 £6.806 million) for equal pay claims.

28. Long Term Debtors

Long Term Debtors within the Balance Sheet include £1.348 million (2008 £1.089 million) reflecting the prepayment to PPP contractors for lifecycle maintenance costs associated with schools run under PPP contracts as listed at note 10.

Notes to the Core Financial Statements

29. Reserves

The movements in Reserves are as follows:

	Restated Balance Brought Forward £000	**(Gains) / Losses for the year £000**	**Transfers between Reserves £000**	**Balance Carried Forward £000**
Capital Adjustment Account	(410,282)	0	33,667	**(376,615)**
Revaluation Reserve	(142,748)	(172,793)	11,025	**(304,516)**
Pension Reserve	42,676	66,582	0	**109,258**
Financial Instruments Adjustment Account	4,130	(852)	656	**3,934**
Available-for-sale Financial Instruments Reserve	(612)	0	0	**(612)**
Insurance Fund	(634)	0	634	**0**
Capital Fund	0	1,367	(1,367)	**0**
Useable Capital Receipts Reserve	0	(2,188)	2,188	**0**
Repairs and Renewals Fund	(1,089)	0	(259)	**(1,348)**
Housing Revenue Account	(10,352)	0	(618)	**(10,970)**
General Fund Reserve	(2,122)	39,723	(45,926)	**(8,325)**
Total	**(521,033)**	**(68,161)**	**0**	**(589,194)**

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP. It is set up under the system of capital accounting and is not available for use.

The Revaluation Reserve records unrealised gains arising since 1 April 2007 from holding fixed assets. It is set up under the system of capital accounting and is not available for use**.**

The Pension Reserve is set up in accordance with the requirements of Financial Reporting Standard No 17 – Retirement Benefits (FRS 17). This reserve is not available for use. See Note 3 for details.

The Financial Instruments Adjustment Account provides a balancing mechanism between the different rate at which gains and losses (such as premiums on the early repayment of debt) are recognised under the SORP and are required by statute to be met from the General Fund. It is not available for use.

The Available-for-sale Financial Instruments Reserve is a measure of gains on the revaluation of investments not yet realised through sales. It is not available for distribution.

The Insurance Fund is earmarked for insurance purposes. In 2009/10 Council took the decision to discontinue use of this fund with effect from 1st April 2010.

The Capital Fund is maintained in terms of Local Government (Scotland) Act 1975 to assist in defraying capital expenditure.

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.

The Repairs and Renewals Fund represents funds earmarked for future repairs and maintenance to Council Assets.

The Housing Revenue Account Reserve represents the accumulated balance on the Housing Revenue Account at 31 March 2010.

The General Fund Reserve represents the accumulated balance on Midlothian Council Revenue Account at 31 March 2010.

Notes to the Core Financial Statements

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

There are some 21 trusts, bequests and community funds of varying size managed by the Council, each of which has specific objectives and conditions.

The main funds are:

	As at 31.03.10	As at 31.3.09
	£000	£000
Dalkeith Common Good	22	24
Penicuik Common Good	4	5
Community Mining Funds	128	128
Other Funds	88	86
Total	**242**	**243**

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.

Three of the bequests are registered charities. They are as follows:

Name	Reg no	Purpose
Sir Samuel Chisholm Bequest	SCO 19329	Poor people in area of Dalkeith
Fraser Hogg Bequest	SCO 19328	Poor people in area of Dalkeith
Macfie Hall Trust	SCO 19330	Maintenance of hall

The combined value at 31 March 2010 of these bequests is £5,850.32. Details of movements during 2009/10 are shown below:

	Balance at 31 March 2009	Expenditure in 2009/10	Income in 2009/10	Balance at 31 March 2010
Name	£	£	£	£
Sir Samuel Chisholm Bequest	1,238	109	106	1,235
Fraser Hogg Bequest	4,561	262	66	4,365
Macfie Hall Trust	250	4	4	250

31. Devolved School Management

The net amount of balances to be carried forward for schools under the scheme is £0.051 million (2008/09 recovery from schools of £0.192 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

32. Finance Leases

There are no finance leases included in the balance sheet at 31 March 2010 other than the PPP's which are explained in depth in note 10.

33. Contingent Liability

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

Notes to the Core Financial Statements

34. Post Balance Sheet Events

The Chancellor of the Exchequer announced in his emergency budget on 22nd June 2010 that the consumer prices index rather than the retail prices index will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 – Events after the Balance Sheet Date, this change is deemed to be a non-adjusting post-balance sheet event. It is estimated that this change will reduce the value of an average employers FRS17 liabilities in the fund by around 6-8%.

The Council's share of the landholding at Shawfair in the Balance Sheet is £6.250 million based on the most up to date valuation prior to the Balance Sheet date. The land was subsequently revalued on 17th June 2010 reducing the council's share of the value by £0.750 million to £5.500 million. This is deemed to be a non-adjusting post-balance sheet event.

35. Financial Instruments

The SORP 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

	Long Term 31.3.10 £000	Long Term 31.3.09 £000	Current 31.3.10 £000	Current 31.3.09 £000
Borrowings				
Financial Liabilities at amortised cost	131,280	141,306	40,800	36,792
Investments				
Loans and Receivables			16,030	39,806

The fair values above are based on the comparable new borrowing / deposit rate for the same financial instrument from a comparable lender. A consistent approach has been applied to assets and liabilities.

Lender Option Borrower Options (LOBO's) of £20m have been included in long term borrowing but have a call date in the next 12 months.

The long term figures shown above reflect the SORP guidance that states in undertaking EIR calculations the maturity period of a LOBO should be taken as being the contractual period to maturity.

Gains and Losses on Financial Instruments

There were gains of £0.853 million on financial instruments which were recognised in the Income and Expenditure Account and Statement of Total Recognised Gains Losses arising during the year.

Notes to the Core Financial Statements

Fair Value of Assets and Liabilities Carried at Amortised Cost

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

The fair value of an instrument is determined by calculating the Net Present Value 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 our treasury management consultants from the market on 31st March 2010, using bid prices where applicable.

The calculations are made with the following assumptions:

- For PWLB debt, the discount rate used is the rate for new borrowing as per rate sheet number 063/10 issued by PWLB on 31st March 2010;
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender;
- Interpolation techniques have been used between available rates where the exact maturity period was not available;
- No early repayment or impairment is recognised;
- Fair values have been calculated for all instruments in the portfolio, but only those which are materially different from the carrying value are disclosed;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Fair values of liabilities are calculated as:

	31.3.10 Carrying Amount £000	**31.3.10 Fair Value £000**	**31.3.09 Carrying Amount £000**	**31.3.09 Fair Value £000**
Borrowings				
PWLB	122,142	125,289	142,188	146,288
LOBO	20,931	24,779	20,905	21,015
European Investment Bank	18	22	23	28
Bank Overdraft	1,609	1,609	275	275
Short term borrowing	29,113	29,095	14,706	14,730
Total	**173,813**	**180,794**	**178,097**	**182,336**

Short Term borrowing as shown in the Balance Sheet of £40.800 million includes LOBO's and comprises accrued interest of £1.140 million and principal to be repaid within 12 months of £39.660 million. Accrued interest for LOBO's of £0.656 million is included in borrowing repayable within a period in excess of 12 months.

Fair values of assets are calculated as:

	31.3.10 Carrying Amount £000	31.3.10 Fair Value £000	31.3.09 Carrying Amount £000	31.3.09 Fair Value £000
Investments				
Cash	5,975	5,975	79	79
Deposits with Banks and Building Societies	10,051	10,094	39,727	39,950
Total	**16,026**	**16,069**	**39,806**	**40,029**

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 high quality 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 with institutions to a maximum of £20m and a limit on the maximum size of one transaction in placing a deposit of £15m.

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 2010 £000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2009 %	Estimated maximum exposure to default and non collectable amounts £000
Deposits with banks and other financial institutions	16,030	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.

Age Analysis

	31 March 2010 £000
Less than 3 months	11,030
3 to 6 months	0
6 months to 1 year	5,000
More than 1 year	0
Total	**16,030**

Notes to the Core Financial Statements

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

The maturity structure of financial liabilities is as follows (at nominal value):

At 31 March 2010 £000	**Loans Outstanding**	**At 31 March 2009 £000**
121,288	PWLB	141,408
20,000	Market Debt	20,000
29,102	Temporary Borrowing	14,702
18	Other	21
170,408	**Total**	**176,131**
39,128	Less than 1 year	34,826
20,028	Between 1 and 2 years	26
20,082	Between 2 and 5 years	30,086
2,157	Between 5 and 10 years	2,144
89,013	More than 10 years	109,049
170,408	**Total**	**176,131**

In the more than 10 years category there are £20m of LOBO's which have a call date in the next 12 months.

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 affect of fluctuations in interest rates on the fair value of an instrument.

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

- Decreases in interest rates will affect interest earned on variable rate investments, potentially reducing income credited to the Income and Expenditure account;
- Increases in interest rates will affect interest paid on variable rate borrowings potentially increasing interest expense charged to the Income and Expenditure account;
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the balance sheet for those assets held at fair value, which would also be reflected in the Statement of Total Recognised Gains and Losses;
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the balance sheet for the majority of liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. Policy is to aim to keep a maximum of 30% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally over time move with prevailing interest rates or the authority's cost of borrowing and provide compensation for a higher proportion of any higher costs.

Notes to the Core Financial Statements

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

According to this assessment strategy, at 31 March 2010, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

<u>Interest Rate Risk</u>

	£000
Increase in interest payable on variable rate borrowings	164
Increase in interest receivable on variable rate instruments	260
Increase in government grant receivable for financing costs	0
Impact on Income and Expenditure Account	**96**
Share of overall impact credited to the HRA	**43**
Decrease in fair value of “available for sale” investment assets	0
Impact on Statement of Recognised Gains and Losses	**0**

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

<u>Price Risk</u>

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

<u>Foreign Exchange Risk</u>
The Council has no financial assets or liabilities denominated in foreign currencies so has no exposure to loss arising from movements in exchange rates.

36. Reconciliation of the Income and Expenditure Account surplus to the net revenue activity cash flow

	2009/10 £000	**2009/10 £000**
Deficit on the Income and Expenditure Account		38,902
Non cash items:		
Depreciation, downward revaluations and impairments	(50,708)	
Other non cash items	(4,708)	
Movement in Stocks	(28)	
Movements in Net Debtors	2,229	
Movement in Creditors	1,926	
		(51,289)
Net Cash inflow from Revenue Activities		**(12,387)**

Notes to the Core Financial Statements

37.	Reconciliation of the movement in cash to the movement in Net Debt	2009/10 £000
	(Increase) / Decrease in Cash and Bank in year	(4,569)
	(Increase) / Decrease in Liquid Resources	30,279
	(Increase) / Decrease in Debt in year	(6,479)
	Increase in Net Debt in year	**19,231**

	Analysis of Net Debt	**Restated 31.03.09**	**31.03.10**	**2009/10 Movement**
	Investments	(40,379)	(10,100)	30,279
	Cash and Bank	(126)	(6,029)	(5,903)
	Short Term Borrowing	35,611	40,800	5,189
	Bank Overdraft	276	1,609	1,333
	Long Term Borrowing	142,210	131,280	(10,930)
	Deferred Liabilities	62,558	61,821	(737)
	Total Debt	**200,150**	**219,381**	**19,231**

38.	**Management of Financing**	**Restated 31.03.09**	**31.03.10**	**2009/10 Movement**
	Short Term Borrowing	35,611	40,800	5,189
	PWLB Loans	121,288	111,267	(10,021)
	Long Term – Market	20,905	20,000	(905)
	European Investment Bank	18	13	(5)
	Deferred Liabilities	62,558	61,821	(737)
	Net Financing – per Cash Flow Statement	**240,380**	**233,901**	**(6,479)**

39.	**Analysis of Government Grants**	**2009/10 £000**	**2009/10 £000**
	Scottish Government Grant		120,170
	DWP Benefit Subsidy		23,336
	Other Government Grants:		
	Criminal Justice	856	
	Social Work Training	22	
	Employment Initiatives	708	
	Sheltered Employment	49	
	Fairer Scotland Fund	718	
	Determined to Succeed	371	
	Education Grants	675	
	Other Grants	1,224	4,623
			148,129

Housing Revenue Account Income and Expenditure Account

For the year ended 31 March 2010

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

2008/09		2009/10	per house per week
£000		**£000**	**£**
	Income		
13,927	Gross dwelling rents	15,739	46.95
381	Non dwelling rents	390	1.16
308	Other Income	337	1.00
14,616		**16,466**	**49.11**
	Expenditure		
5,855	Repairs and Maintenance	6,213	18.53
4,009	Supervision and Management	4,214	12.57
10,486	Depreciation and Impairment of Fixed Assets	14,322	42.72
1,613	Other Expenditure	1,823	5.43
133	Increase / (Decrease) in Bad Debt Provision	37	0.11
22,096		**26,609**	**79.36**
7,480	**Net Cost of HRA services per the whole authority Income and Expenditure Account**	**10,143**	**30.25**
225	HRA share of Corporate and Democratic Core	225	0.67
7,705	**Net Cost of HRA Services**	**10,368**	**30.92**
	HRA share of the operating income and expenditure included in the whole authority accounts		
306	Loss / (Gain) on sale of HRA fixed assets	1,450	4.33
1,990	Interest Payable and similar charges	2,373	7.08
(638)	Interest and Investment Income	(176)	(0.52)
7	Pensions Interest Cost and Expected Return on Pension Asset	242	0.72
9,370	**Deficit / (Surplus) for the year on the HRA Services**	**14,257**	**42.53**

Statement of Movement on the HRA Balance for the Year ended 31 March 2010

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

2008/09		2009/10	per house
£000		**£000**	**per week**
9,370	Deficit for the year on the HRA Income & Expenditure Account	14,257	42.53
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
(306)	Gain/(loss) on sale of HRA fixed assets	(1,450)	(4.33)
(9,959)	Transfer to/(from) Capital Adjustment Account	(13,376)	(39.90)
0	Transfer to/(from) General Fund	0	0
41	HRA share of contributions to/from pension reserve	(49)	(0.15)
(854)	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**(618)**	**(1.85)**
(9,498)	Housing Revenue Account Balance brought forward	**(10,352)**	**(30.88)**
(10,352)	**Housing Revenue Account Balance carried forward**	**(10,970)**	**(32.72)**

Notes to the Housing Revenue Account

1. General

This account reflects the statutory requirement to account for local authority 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 2010 the Council had 6,511 houses (31 March 2009 6,382) which can be analysed as follows:

Type of Dwelling	2009/10 Number	2008/09 Number
1 Bedroom	775	781
2 Bedroom	3,700	3,616
3 Bedroom	1,746	1,701
4 Bedroom	282	279
5 / 6 Bedroom	8	5
Total	**6,511**	**6,382**

3. Rent Arrears

At the end of the year rent arrears amounted to £1.641 million (2008/09 £1.574 million) for which a provision for bad and doubtful debts of £0.390 million (2008/09 £0.428 million) exists.

4. Rent Loss Due to Voids

At the end of the year rent loss due to void properties was £0.643 million (2008/09 £0.444 million).

Council Tax Income Account

For the Year ended 31 March 2010

Councils raise taxes from residents by way of a property tax – the Council Tax – which is based on property values. Each dwelling house in a local authority 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.

2008/09		**2009/10**
£000		**£000**
41,411	Gross Council Tax levied	42,423
	Less :	
4,460	Discounts	4,610
1,101	Provision for bad & doubtful debts	1,127
(51)	Council Tax Benefits (net of Government Grant)	(69)
35,901		**36,755**
358	Adjustments to previous years	(22)
36,259	**Net Council Tax income for the Year**	**36,733**

Notes to the Council Tax Income Account

1. Calculation of the council tax base for the year.

	Property Bands								
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Properties	1,034	12,163	10,103	4,182	4,181	2,383	1,633	162	35,841
Disabled relief	46	3	(15)	(7)	(11)	(4)	(12)	0	0
Less									
Exemptions	73	397	183	67	184	28	22	6	960
Discounts (25%)	156	1,415	842	281	211	81	47	5	3,038
Discounts (50%)	15	63	56	24	14	10	10	1	193
Effective properties	836	10,291	9,007	3,803	3,761	2,260	1,542	150	31,650
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D equivalents	557	8,004	8,006	3,803	4,597	3,264	2,570	300	31,101
Contributions in lieu – Band D equivalents									212
Total									**31,313**
Provision for non payment									(939)
Council Tax Base									**30,374**

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

Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Numbers	836	10,291	9,007	3,803	3,761	2,260	1,542	150	31,650
£	806.67	941.11	1,075.56	1,210.00	1,478.89	1,747.78	2,016.67	2,420.00	

Non-Domestic Rate Income Account

For the Year ended 31 March 2010

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 authority and therefore bears no direct relationship with the amount collected by those authorities.

2008/09 £000		2009/10 £000
26,722	Gross rates levied	28,202
	Less:	
5,503	Reliefs and other deductions	6,470
20	Interest paid	0
552	Provision for bad & doubtful debts	555
575	Adjustments to previous years	57
20,072	**Net Non Domestic Rate Income**	**21,120**
	Allocated:	
20,135	Contribution to national non-domestic rates pool	21,188
(63)	Midlothian Council	(68)
20,072		**21,120**

Notes

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £33.464 million (2008/09 £30.415 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 48.1p per £, where the rateable value was less than or equal to £29,000 and 48.5p per £ where the rateable value exceeded £29,000. Subject to eligibility, properties with a rateable value up to £15,000 can apply for relief.

3. Rateable Value as at the start of the year

	Number 2009/10	Number 2008/09	Rateable Value 2009/10 £000	Rateable Value 2008/09 £000
Shops, Offices and Other Commercial Subjects	1,589	1,551	31,990	31,940
Industrial and Freight Transport	825	830	14,391	14,062
Miscellaneous (Schools etc)	307	311	11,746	11,647
	2,721	**2,692**	**58,127**	**57,649**

Group Accounting Policies

1. Introduction
The Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (the SORP) 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 Police, Fire 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.

2. The Group
The Council has an interest in one wholly owned subsidiary company. It considers three Joint Boards as Associates. In 2008/09 the Council consolidated the accounts of Shawfair Developments Limited (SDL) into its group accounts as a partly owned joint venture company. The accumulated losses of SDL were written off through the council's accounts in 2008/09 and the company is now dormant and directors are considering its future existence. Consequently SDL is not consolidated into group accounts in 2009/10 and the 2008/09 comparatives for the group have been amended to reflect this.

Wholly owned subsidiary - The Council is the sole shareholder of Pacific Shelf 826 Ltd (PS826 Ltd). This company is regarded as a group company in terms of the Code of Practice on Local Authority Accounting in the United Kingdom. The nature of the company's business is land acquisition and development, acting as a land agent and promoting economic development. The company was incorporated on 31 March 1999.

The accounts of PS826 Ltd are published separately and are available from the Director Corporate Services, Midlothian House, Dalkeith EH22 1DN.

The Lothian & Borders Police Board, Lothian and Borders Fire Board, and Lothian Valuation Joint Board are consolidated as associates, reflecting the Council's interest in these entities. The Accounts of the Joint Boards can be obtained from the Treasurer, The City of Edinburgh Council, City Chambers, Edinburgh EH1 1YJ.

3. Basis of Combination and Going Concern
The combination has been 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 (recognised in the Group Income & Expenditure Account), and its share of other gains & losses.

For all of the entities, the Council has a share in a net liability. The negative balances on Police, Fire, & Valuation Joint Boards arise from the inclusion of liabilities related to the defined benefit pension schemes as required by FRS 17 (i.e. their pension liability to pay retirement benefits in the long term).

All associates consider it appropriate that their Statement of Accounts should follow the "going concern" basis of accounting. Statutory arrangements with the Scottish Government for the funding of the Police Joint Board deficit and with the constituent local authorities for the deficits of Fire and Valuation Joint Boards means that the financial position of these Boards remains assured.

4. Disclosure of Differences with Main Statement of Accounting Policies
The financial statements in the Group Accounts of Midlothian Council are prepared in accordance with the accounting policies set out in pages 5 to 7 with the additions and exceptions shown in the following section.

5. Retirement Benefits
Police and fire fighters have separate pension arrangements. The Police Pension Scheme and the Firemen's Pension Scheme are unfunded and therefore net pension payments are charged to the income & expenditure account in the year in which payment is made.

Group Income and Expenditure Account

For the Year ended 31 March 2010

2008/09 Net Expenditure Restated £000	Service	Notes	Gross Expenditure £000	Gross Income £000	2009/10 Net Expenditure £000
99,304	Education Services		97,925	4,347	93,578
41,886	Social Work		52,606	10,684	41,922
11,401	Culture and Related Services		15,821	5,623	10,198
9,249	Roads and Transport Services		10,628	1,434	9,194
7,697	Police Services		8,291	345	7,946
7,881	Environmental Services		10,107	1,694	8,413
2,670	Planning and Development Services		5,978	2,998	2,980
2,998	Fire Services		2,959	0	2,959
7,480	Housing Revenue Account		26,609	16,466	10,143
9,050	Other Housing Services		30,484	21,520	8,964
3,304	Corporate & Democratic Core		4,075	813	3,262
5,838	Central Services to the Public		13,400	1,117	12,283
(584)	Non-distributable Costs		1,374	0	1,374
(822)	Share of Operating Results of Associates		(576)	0	(576)
207,352	**Net Cost of Services**		**279,681**	**67,041**	**212,640**
96	(Gains)/Losses on Disposal of Fixed Assets				1,818
(337)	Net (Surplus)/Deficit on Trading Operations	9			(508)
11,961	Group Interest Payable				12,575
0	Interest Received				(573)
2,223	Investment Losses	17			0
(2,488)	Group Interest & Investment Income Received				(534)
0	Taxation of Group Entities				0
99	Pensions Interest Cost and Expected Return on Pension Assets	4			3,366
6,959	Pensions Interest Cost and Expected Return on Pension Assets of Associates				7,411
225,865	**Net Expenditure**				**236,195**
	Income from taxation and general government grants				
(36,259)	Council Tax				(36,733)
(116,884)	Scottish Government Grant				(120,170)
(30,351)	Non-domestic Rates				(33,396)
42,371	**Group Deficit/(Surplus) for the Year**				**45,896**

Reconciliation of the Single Entity Deficit

for the Year to the Group Deficit

This statement shows how the deficit on the Council's single entity Income and Expenditure Account for the year reconciles to the deficit for the year on the Group Accounts

2008/09 Net Expenditure Restated £000		2009/10 Net Expenditure £000
36,196	**Deficit on the Council's single entity Income and Expenditure Account for the year**	38,902
38	Subsidiary and associate dividend income and any other distributions from group entities included in the single entity surplus or deficit on the Income and Expenditure Account	1
	(Surplus) or deficit arising from other entities included in the group accounts analysed into the amounts attributable to:	
(88)	- Subsidiaries and Joint Ventures	3
6,225	- Associates	6,990
42,371	**Deficit for the Year on the Group Income and Expenditure Account**	**45,896**

Group Statement of Total Recognised Gains and Losses

For the Year ended 31 March 2010

This statement brings together all the gains and losses of the Group for the year.

2008/09 Net Expenditure Restated £000		2009/10 Net Expenditure £000
42,371	**Deficit on the Group Income and Expenditure Account for the year**	**45,896**
(48,047)	Deficit/(Surplus) on the revaluation of fixed assets	(173,323)
32,882	Actuarial loss/(gain) on pension assets and liabilities	116,838
(852)	(Gain) / Loss arising on Financial Instruments Adjustment Account	(853)
(612)	Surplus or (Deficit) on revaluation of available-for-sale financial assets	0
1,917	Other losses/(gains)	13
27,659	**Total Recognised (Gains) and Losses for the Year**	**(11,429)**

Group Balance Sheet as at 31 March 2010

2008/09 £000 Restated		Notes	2009/10 £000	2009/10 £000
319	Intangible Assets	24		417
	Tangible Fixed Assets			
	Operational Assets			
439,742	Council Houses	19,20	621,129	
266,804	Other Land and Buildings	19,20	276,740	
7,618	Vehicles, Plant and Equipment	19,20	5,995	
21,270	Infrastructure Assets	19,20	20,086	
806	Community Assets	19,20	889	
736,240				924,839
	Non-operational Assets			
24,772	Investment Properties	19,20	30,622	
51,490	Assets Under Construction	19,20	20,288	
24,656	Surplus Assets, held for disposal	19,20	12,743	
100,918				63,653
962	Long-term Investments	18		962
(99,855)	Investments Share of net Assets of Associates			(156,583)
1,089	Long-term Debtors	28		1,372
739,673				**834,660**
	Current Assets			
646	Stocks and Work in Progress		619	
33,796	Debtors	25	36,757	
(22,511)	Less: Bad Debt Provision	25	(23,243)	
11,285	Net Debtors	25	13,514	
39,738	Investments	35	10,062	
259	Cash and Bank	35	6,161	
51,928				30,356
	Current Liabilities			
35,611	Borrowing repayable on demand or within 12 months	35	40,800	
28,048	Creditors	26	26,121	
276	Bank Overdraft		1,609	
63,935				68,530
727,666	**Total Assets less Current Liabilities**			**796,486**

Group Balance Sheet as at 31 March 2010

2008/09 £000 Restated		Notes	2009/10 £000	2009/10 £000
142,210	Borrowing repayable within a period in excess of 12 months	35		131,280
62,558	Deferred Liabilities			61,821
50,726	Government and other Grants Deferred			56,217
42,676	Liability related to Defined Benefit Pension Scheme	4		109,258
8,076	Other Provisions	12,13,27		5,061
421,420	**Total Assets less Liabilities**			**432,849**
	Financed By:			
410,282	Capital Adjustment Account	29		376,615
142,748	Revaluation Reserve	29		304,516
(4,130)	Financial Instruments Adjustment Account	29,35		(3,934)
612	Available-for-sale Financial Instruments Reserve	18,29		612
(42,676)	Pension Reserve	4,29		(109,258)
(106,970)	Share of Pension Reserve of Joint Boards			(160,098)
1,089	Repairs and Renewals Fund	29		1,348
634	Insurance Fund	13,29		0
10,352	Housing Revenue Account Reserve	29		10,970
2,122	General Fund Reserve	29		8,325
725	Share of Group Realisable Reserves			1,028
6,389	Group Other Reserves			2,483
243	Trusts and Bequests	30		242
421,420	**Total Balances and Reserves**	**22**		**432,849**

The unaudited accounts were issued on 23 June 2010 and the audited accounts were authorised for issue on 28 September 2010.

Signed:

Ian Jackson	**Gary Fairley**
Director Corporate Services	**Head of Finance and Human Resources**
23 June 2010	**28 September 2010**

(Ian Jackson was in post until 30th June. Gary Fairley assumed Section 95 responsibilities thereafter.)

Group Cash Flow Statement

For the Year ended 31 March 2010

The Group Cash Flow Statement includes the cash flows of the Council (and its Common Good Funds & sundry trusts). Under accounting regulations, cash receipts and payments external to the Group that flow to and from the Council and subsidiaries only (i.e. full group members) must be included. Cash flows to and from the Council to its associates are already included within the cash flow statement of the Council.

Restated 2008/09 £000		2009/10 £000
(8,284)	**Net cash inflow from revenue activities** (note 1)	**(6,599)**
	Net cash inflow/outflow from servicing of finance	
7,032	Interest paid	5,905
5,327	Interest element of Finance Lease rental payments	5,315
(3,270)	Interest received	(573)
	Net cash inflow/outflow from capital activities	
69,399	Purchase of fixed assets	30,797
(5,494)	Sale of fixed assets	(2,229)
(8,146)	Capital grants received	(6,372)
(2,020)	Developer Contributions	(731)
(506)	Other capital cash receipts	(494)
54,038	**Net cash inflow/outflow before financing**	**25,019**
	Management of liquid resources	
(12,626)	Net increase in short term deposits	(30,277)
	Financing	
32,475	Repayment of amount borrowed	40,142
755	Capital element of finance lease repayment	737
(54,800)	New loans raised	(34,400)
19,842	**Net (Increase)/Decrease in Cash**	**1,221**

Note 1
A reconciliation of the deficit for the year per the Group Income & Expenditure Account to the "net cash inflow from revenue activities" is as follows:

	£000	£000
Deficit for the year		**45,896**
Depreciation, downward revaluations and impairments	(50,708)	
Other Adjustments not involving movement of funds	(5,914)	
Movement in Stocks	(28)	
Movement in Net Debtors	2,229	
Movement in Creditors	1,926	
		(52,495)
Net cash inflow from revenue activities		**(6,599)**

Notes to the Groups Financial Statements

1. The Group
The Council has an interest in one wholly owned subsidiary company, and considers three Joint Boards as Associates.

Wholly owned Subsidiary - The Council is the sole shareholder of Pacific Shelf 826 Ltd (PS826 Ltd). This company is regarded as a group company in terms of the Code of Practice on Local Authority Accounting in the United Kingdom. The nature of the company's business is land acquisition and development, acting as a land agent and promoting economic development. The company was incorporated on 31 March 1999.

The accounts of PS826 Ltd are published separately and are available from the Director Corporate Services, Midlothian House, Dalkeith EH22 1DN.

The Lothian & Borders Police Board, Lothian and Borders Fire Board, and Lothian Valuation Joint Board are consolidated as associates, reflecting the Council's interest in these entities. The Accounts of the Joint Boards can be obtained from the Treasurer, The City of Edinburgh Council, City Chambers, Edinburgh EH1 1YJ

2. Financial Impact of Consolidation
The effect of inclusion of the subsidiary and associates on the group balance sheet is to decrease the net assets and total equity by £156.345 million, the principal reason for the change being the Council's share of the deficit on the associates' Pension Reserves.

Other than the effect of the items detailed above the information presented in the notes to the single entity accounts are also valid for the group accounts, so are not replicated here.

Independent Auditor's Report

Independent auditor's report to the members of Midlothian Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Midlothian Council and its group for the year ended 31 March 2010 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice (the 2009 SORP) are set out in the Statement of Responsibilities for the financial statements.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In addition, I report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Annual Governance Statement reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. My audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Finance and Human Resources in the preparation of the financial statements, and of whether the accounting policies are most appropriate to Midlothian Council and its group circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Midlothian Council and its group as at 31 March 2010 and its income and expenditure for the year then ended; and

- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Failure to comply with a statutory requirement

It has not been necessary to qualify my opinion in respect of the following matter.

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2010 in respect of the Investment Properties significant trading operation.

Gillian Woolman FCA,
Assistant Director Audit Services
Audit Scotland
Osborne House, 1/5 Osborne House
Edinburgh, EH12 5HG

28 September 2010

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

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

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

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

11. Capital Charges
A charge to service revenue accounts to reflect the cost of fixed assets used in the provision of services.

Glossary of Terms

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

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

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

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

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

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

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

19. Revaluation Reserve
The Revaluation Reserve records unrealized revaluation gains arising (since 1 April 2007) from holding fixed assets.

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

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. Government Grant Deferred
The balance on this account represents the value of capital grants which have been applied to finance the acquisition or enhancement of fixed assets. The balance is released to revenue over the life of the asset taking into account depreciation.

23. 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.

Glossary of Terms

24. Generally Accepted Accounting Practice in the UK (UK GAAP)
The overall body of regulation establishing how company and Council accounts must be prepared in the United Kingdom.

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

26. 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.