Midlothian

Midlothian Council
Audited
Financial Statements
2007/08

Statement of Accounts 2007/2008
Contents

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 31 March 2008. 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 to ensure that the Accounts "present fairly" financial performance are set out on pages 3 to 5. An explanation of the main technical terms used in the Statement of Accounts is included at pages 42 to 43.

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

Accounting Standards
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 2007", which is issued by the CIPFA/LASAAC Joint Committee.

Financial Performance
The General Fund Reserve at the start of the year was a surplus of £9.825 million, and it was expected that this would be reduced by £0.717 million in the year.

Income
The income from government grants and local taxation in the year was £160.553 million, an increase of £0.365 million against the revised budget.

Expenditure
Net operating expenditure in the year was £178.668 million giving rise to a deficit on the Income and Expenditure account of £18.115 million. Adjustments for appropriations etc of £20.054 million, as detailed in the Statement of Movement on the General Fund Balance, left expenditure to be met from government grants and local taxation in the year of £158.613 million. This is £0.857 million or 0.54% less than the revised budget.

Expenditure in the year includes a further £1.623 million, in respect of the costs of settling backdated equal pay claims under The Equal Pay Act 1970. The act provides for equal pay between women and men in the same employment by giving the woman the right to equality in the terms of her contract of employment where she is employed on like for like work to that of a man, or work rated as equivalent or work of equal value.

Balances
The effect of these is that the balance on the General Fund Reserve at the end of the year was £11.764 million of which £8.405 million is earmarked for the following specific purposes.

	£ million
Specific Divisional Reserves	7.214
Contingency for future pay claims	1.191
	8.405

This leaves a working balance and general contingency of £3.359 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 £8.946 million.

In the event variations in income and expenditure resulted in reserves at 31 March 2008 of £9.498 million.

Explanatory Foreword by the Director Corporate Services (Continued)

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 £53.067 million in the year. The investment in Council assets and services was made possible by the realisation of capital receipts, grants and developer contributions and borrowing.

A full analysis of this figure and the sources of finance are provided in the notes to the core financial statements.

Group Accounts

The Council is required to prepare the Group Accounts which reflect its financial position including undertakings which are under the Council's control or influence. Trust funds and Common Goods funds have been consolidated into the group together with Pacific Shelf 826 Ltd which is a wholly owned subsidiary, Shawfair Developments Ltd which is recognised as an associate, Lothian and Borders Police Board, Lothian and Borders Fire Board and Lothian Valuation Joint Board which are all considered associates.

Net Pension Liability

The net pension liability, in accordance with FRS 17 (Retirement Benefits), amounts to £12.773m. This is less than the useable reserves of £23.041 million. The actuarial valuation of the Lothian Pension Fund 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

Director Corporate Services
12th June 2008

Accounting Policies

1. Introduction
The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 (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. Major Changes in Accounting Practice
The 2007 Statement of Accounting Practice (the SORP) made some changes from its predecessor which is a result of a move to greater convergence between the SORP and the wider UK Generally Accepted Accounting Practices (GAAP).

The Fixed Asset Restatement Account (FARA) and the Capital Financing Account (CFA) have been replaced by a Capital Adjustment Account (CAA). Balances in the FARA and the CFA are merged into the CAA. A Revaluation Reserve has also been established and starts on 1st April 2007 with a zero balance. No retrospective adjustments to comparatives are required.

The SORP requirements for Financial Instruments are now based on FRS 25 Financial Instruments: Presentation and Disclosures, FRS 26 Financial Instruments: Recognition and Measurement and FRS 29 Financial Instruments: Disclosures.

Additional disclosures are required for Charitable Trusts incorporated into Group Accounts. They include a Disclosure Foreword, an Income and Expenditure Account and a Balance Sheet.

A cap and trade scheme for Landfill Allowances was introduced from 1st April 2008. Until then landfill penalties are recognised as a liability in the year incurred. There is no liability in 2007/08.

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 Capital Funds 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.

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:

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 not recognised any Intangible Assets in its Balance Sheet as the amounts concerned are immaterial. Any such expenditure is charged to the Income and Expenditure Accounts in the year in which it is incurred.

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).

Land, housing stock, 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.

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

13. Investments
Investments are shown in the Balance Sheet at cost.

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 2008.

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 Financial Reporting Standard No. 5 – Reporting the Substance of Transactions, and Treasury Guidance.

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 2007 (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 fairly the financial position of the Council at 31 March 2008 and its income and expenditure for the year then ended.

Signed :

Ian Jackson
Director Corporate Services
12th June 2008

Corporate Governance Assurance Statement

1. Introduction

Midlothian Council is responsible for ensuring that its business, and that of the group entities Pacific Shelf 826 Ltd and Shawfair Developments Ltd (SDL), is conducted in accordance with the law and proper standards so that public money is safeguarded and properly accounted for; is used economically, efficiently and effectively; and that overarching statutory duties of best value and community planning are achieved.

Elected members and senior management are responsible for the governance of the business affairs of Midlothian Council. In 2007 the council approved an updated code of corporate governance, which is located in public view, and which is used to self-assess the Council's governance. There is a supporting assurance system which has also been updated in 2007.

2. Code of Corporate Governance and Assurance System

Both the code and the assurance system include financial and non financial aspects, including the need for sound systems of internal control. Financial controls should give reasonable, but not absolute, assurances that assets are safeguarded, that transactions are authorised and properly recorded and that material errors or irregularities are either prevented or would be detected in a timely period.

The Council has a system of internal financial control which is based on a framework of regular management information, financial regulations and directives, internal check, administrative procedures, management supervision and a scheme of delegation. The system is maintained and developed by Council management and includes:

- Comprehensive budgeting systems;
- Regular reviews of periodic financial reports;
- Preparation of regular financial reports that compare expenditure with plans and forecasts;
- Clearly defined capital expenditure guidelines;
- An Internal Audit Section which reports regularly to the Performance Review Committee;
- Formal governance arrangements within Pacific Shelf 826 Ltd and SDL Ltd.

The review of the effectiveness of the system of internal financial control is informed by:

- Assurance statements received from the Chief Executive and Directors;
- The governance arrangements in place for both Pacific Shelf 826 Ltd and SDL Ltd;
- The work of managers within the Council;
- The work of Internal and External Audit including the recently published report on Best Value;
- Risk Registers of a financial nature.

3. Improvements Identified in 2006/07 Statement

The Council has addressed the areas for improvement highlighted in the 2006/07 statement. The progress made is that:

- The underlying funding gap was addressed and a balanced budget set for 2008/09.
- Business Process improvements have gathered momentum.
- Further improvements have been made in the financial control of the Education and Communities and Commercial Services Divisions.
- IT resilience to comply with the Civil Contingencies Act is progressing as planned.
- Residual risk exposures have been systematically reduced.
- Formal project management training has been rolled out.
- Preparatory work for external inspections has been carried out (ie) Social Work Inspection Agency.
- The Community Planning partnership agreement is in place.
- Arrangements are in place to ensure that new legislation is successfully implemented.
- Personal Development Planning has been extended a stage further.
- Performance management has been enhanced through training and dedicated software.

4. Self Assessment for 2007/08

The assurance system covers, and self assesses, key financial and non-financial aspects of the Council's business at strategic, operational and project levels and indications are there is demonstrable evidence of sound governance over many of the Council's affairs. However, the assurance system indicated the Council has areas for improvement and these are as follows:

Modernising Midlothian - to implement in 2008/09 a new pay and grading structure which is financially sustainable and is in accordance with equal pay legislation and which supports the Modernising Midlothian agenda.

Major Projects - there is a need to continue monitoring progress on significant projects including Waste Management, Waverley Rail, Shawfair, Customer First, Dalkeith Town Centre Redevelopment and Trent Personnel and Payroll phase 2. There is also some certainty required from the Scottish Government on the E-Planning project so that the project meets deadlines.

New Initiatives - there is a need to create a new option appraisal system that not only accords and links with the Asset Management Plan, Capital Strategy and Capital Plan but encompasses and regulates all ad-hoc option appraisal work across the Council.

Best Value - there is a need to address the issues arising from the published Best Value Audit report. During 2008/09 the improvement plan will be addressed.

Duty of Care - there are some aspects of employee and client health and safety that require improvement. Investment will be made in this area to enhance the Council's duty of care requirement. This in turn should reduce insurance claims and sickness absence.

Risk Management - there is a need in 2008/09 to close the gap further between risk targets and actual risk performance.

Housing Management – there is a need to address the issues arising from the critical inspection report. During 2008/09 the improvement plan will be addressed.

Efficiencies - further realisation of efficiencies is required to assist in releasing funding for local priorities and ongoing budget pressures.

Internal Audit and Assurance - there is a need to review the service and bring forward proposals which will ensure the provision of a sustainable and effective service, better preparedness for the demands of the National Fraud Initiative and so in turn close the gap further on any opportunities for fraud.

Business Continuity Management - there is a requirement to progress Business Continuity Management a stage further, into detailed testing and progressing the information technology resilience plan.

Information Management - improve the management and ownership of data and produce guidance on data sharing protocols.

Assets - continuation of the rationalisation of the property asset so that it supports the efficiencies and financial strategy and demonstrably supports better services at less cost.

Schools - secure funding to take forward the School Estate Management Plan, review school catchment areas and consider options for gradually reducing class sizes.

Community Planning - there is a need for the six strategic groups subordinate to the Community Planning Steering Committee to progress community planning objectives and the governance of partnership working.

On the basis of the elements of Corporate 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 the areas where improvements are required. We will endeavour in 2008/09 to take steps to address, through action plans, the above matters to continue to improve Corporate Governance arrangements.

Signed :

Derek Milligan
Leader of the Council
12th June 2008

Trevor Muir
Chief Executive
12th June 2008

Income and Expenditure Account for the Year ended 31 March 2008

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.

2006/07 Net Expenditure	Continuing Operations	Gross Expenditure	Gross Income	2007/08 Net Expenditure
£000		**£000**	**£000**	**£000**
75,718	Education Services	97,112	9,844	87,268
39,018	Social Work	48,360	8,288	40,072
10,968	Culture and Related Services	14,713	3,740	10,973
8,241	Roads and Transport Services	9,143	2,387	6,756
7,442	Police Services	7,532	0	7,532
6,382	Environmental Services	9,462	3,493	5,969
3,390	Planning and Development Services	5,840	2,481	3,359
2,227	Fire Services	2,190	0	2,190
4,936	Housing Revenue Account	19,721	14,599	5,122
1,940	Other Housing Services	22,785	20,037	2,748
2,760	Corporate & Democratic Core	3,565	773	2,792
1,983	Central Services to the Public	2,169	972	1,197
(2,133)	Non-distributable Costs	1,244	0	1,244
162,872	**Net Cost of Continuing Operations**	**243,836**	**66,614**	**177,222**
229	Losses/(Gains) on Disposal of Fixed Assets			307
(773)	Deficit/(Surplus) on Trading undertakings not included in the Net Cost of Services			(377)
4,626	Interest Payable and similar charges			5,524
(1,568)	Interest and Investment Income			(2,014)
(1,751)	Pensions Interest Cost and Expected Return on Pension Assets			(1,994)
163,635	**Net Operating Expenditure**			**178,668**
(34,872)	Council Tax		(35,740)	
(88,278)	Revenue Support Grant		(95,966)	
(29,469)	Non-Domestic Rates		(28,847)	(160,553)
11,016	**Deficit/(Surplus) for the year**			**18,115**

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 for the Year ended 31 March 2008

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.

2006/07 **£000**		2007/08 **£000**
11,016	**Deficit/(Surplus) for the year on the Income and Expenditure Account**	**18,115**
(11,923)	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	(20,054)
(907)	**Reduction/(Increase) in General Fund Balance for the Year**	**(1,939)**
(8,918)	Balance on General Fund brought forward	(9,825)
(9,825)	**Balance on General Fund carried forward**	**(11,764)**

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

2006/07 **£000**		2007/08 **£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	
(19,223)	• Depreciation and impairment of fixed assets	(20,716)
1,431	• Government Grants Deferred amortisation	1,975
0	• Downward revaluation of fixed assets	(8,973)
(229)	• Net (surplus)/losses on sale of fixed assets	(307)
	• Financing Costs	(620)
(5,351)	• Net charges made for retirement benefits in accordance with FRS 17	(7,608)
(23,372)		**(36,249)**
	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	
6,725	• Loans fund principal repayments	6,762
1,410	• Capital expenditure charged in-year to the General Fund	1,231
8,406	• Employer's pension contributions	9,013
16,541		**17,006**
	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	
(6,600)	• Transfer to / (from) Capital Fund	(3,819)
0	• Transfer to / (from) Insurance Fund	777
1,508	• Increase or (decrease) in the Housing Revenue Account balance for the year	2,231
(11,923)	**Net additional amount required to be debited or credited to the General Fund Balance for the year**	**(20,054)**

Statement of Total Recognised Gains and Losses for the Year ended 31 March 2008

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.

2006/07 **£000**		2007/08 **£000**
11,016	**Deficit/(Surplus) on the Income and Expenditure Account for the year**	**18,115**
(20,619)	Deficit/(Surplus) on the revaluation of fixed assets	(109,985)
(19,757)	Actuarial loss/(gain) on pension assets and liabilities	(24,730)
0	(Gain) / Loss arising on Financial Instruments Adjustment Account	3,716
0	Other losses/(gains)	0
(29,360)	**Total Recognised Losses/(Gains) for the Year**	**(112,884)**

Balance Sheet as at 31 March 2008

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.

As at 31 March 2007					As at 31 March 2008
£000	**£000**		**£000**	**£000**	**£000**
		Tangible Fixed Assets			
		Operational Assets			
322,006		Council Houses		387,741	
163,097		Other Land and Buildings		169,730	
8,022		Vehicles, Plant and Equipment		8,238	
17,706		Infrastructure Assets		22,174	
159		Community Assets		726	
	510,990				588,609
		Non-operational Assets			
20,942		Investment Properties		30,193	
21,438		Assets under Construction		45,165	
16,309		Surplus Assets, held for disposal		28,341	
	58,689				103,699
	350	Long-term Investments			350
	6,064	Long-term Debtors			7,343
	3,949	Deferred Premiums on Early Repayment of Debt			0
	580,042				**700,001**
		Current Assets			
	643	Stocks and Work in Progress		596	
37,395		Debtors	33,848		
(22,975)	14,420	Less: Bad Debt Provision	(23,571)	10,277	
	32,000	Investments		53,005	
	33,399	Cash and Bank		20,994	
	80,462				84,872
		Current Liabilities			
1,222		Borrowing repayable on demand or within 12 months		314	
28,303		Creditors		27,343	
3,356		Bank Overdraft		1,352	
	32,881				29,009
	627,623	**Total Assets less Current Liabilities**			**755,864**
	130,469	Borrowing repayable within a period in excess of 12 months			155,183
	27,531	Government and other Grants Deferred			44,719
	38,908	Liability related to Defined Benefit Pension Scheme			12,773
	944	Other Provisions			534
	429,771	**Total Assets less Liabilities**			**542,655**
		Financed By:			
	403,215	Fixed Asset Restatement Account			0
	0	Capital Adjustment Account			435,880
	47,370	Capital Financing Account			0
	0	Revaluation Reserve			100,843
	0	Financial Instruments Adjustment Account			(4,336)
	(38,908)	Pension Reserve			(12,773)
	1,002	Insurance Fund			1,779
	7,267	Housing Revenue Account Reserve			9,498
	9,825	General Fund Reserve			11,764
	429,771	**Total Balances and Reserves**			**542,655**

The unaudited accounts were issued on 12th June 2008 and the audited accounts were authorised for issue on 29 September 2008.
Signed:
Ian Jackson
Director Corporate Services

Cash Flow Statement
for the Year ended 31 March 2008

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.

	2006/07			2007/08
£000	**£000**		**£000**	**£000**
		Revenue Activities		
		Cash Outflows		
110,214		Cash paid to and on behalf of employees	117,074	
89,662		Other operating cash payments	100,606	
7,466		Housing benefit paid out	7,880	
19,222	**226,564**	National non-domestic rates payments to national pool	19,888	**245,448**
		Cash Inflows		
7,630		House rents	8,230	
30,517		Council tax and community charge	31,760	
29,530		National non-domestic rate receipts from national pool	28,906	
19,296		Non-domestic rates receipts	19,962	
88,278		Revenue support grant	96,578	
17,582		DWP housing benefit grants	18,288	
19,691		Other government grants	18,687	
11,869		Cash received for goods and services	13,368	
10,148	**(234,541)**	Other operating cash receipts	18,526	**(254,305)**
	(7,977)	**Net Cash Inflow from Revenue Activities**		**(8,857)**
		Returns on Investment and Servicing of Finance		
	4,721	Interest paid		5,713
	(1,855)	Interest received		(3,569)
		Capital Activities		
		Cash Outflows		
	35,786	Capital expenditure on fixed assets		45,476
		Cash Inflows		
17,761		Sale of fixed assets	9,276	
11,038		Capital grants received	13,186	
0		Developer contributions	3,265	
32		Other capital cash receipts	453	
	(28,831)	**Net Cash Inflow from Capital Activities**		(26,180)
	1,844	**Net Cash Outflow/(Inflow) before Financing**		**12,583**
		Management of Liquid Resources		
	32,000	Net increase/(decrease) in short term deposits		20,724
		Financing		
		Cash Outflows		
	45,095	Repayment of amounts borrowed		12,739
		Cash Inflows		
	(84,062)	New loans raised		(35,644)
	(5,123)	**Decrease/(Increase) in Cash**		**10,402**

Notes to the Core Financial Statements

1. 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 £0.685 million (2006/07 £0.708 million). This all related to Vehicles, Plant and Equipment. Future cash payments under these leases within 1 year is £0.471 million (2006/07 £0.479m), within 2 to 5 years is £0.474 (2006/07 £0.480 million) and over 5 years is £0.068 million (2006/07 £0.136 million).

2. Publicity account (Section 5 of the Local Government Act 1986)
Under this section, the Council is required to maintain a separate publicity account. Certain items which are exempt expenditure but which cannot be separately identified, such as public notices for road closures and invitations to tender for contract work, are included in the following totals:

	Year to 31.3.08 £000	Year to 31.3.07 £000
Recruitment advertising	276	263
Other advertising	84	97
Other publicity	3	2
	363	**362**

3. Agency Services
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:

	Year to 31.3.08	Year to 31.3.07
Expenditure	£000	£000
Social Work services for Midlothian clients	1,215	1,070
City of Edinburgh Council for collection services	71	49
Other	66	73
	1,352	**1,192**
Income		
Social Work services	342	624
Scottish Water for collection services	186	159
	528	**783**

4. Retirement Benefits
Local Government Superannuation (Scotland) Scheme

Included within the net cost of services are pension costs of:

	Year to 31.3.08 £000	Year to 31.3.07 £000
Service Costs	9,079	9,974
Past Service Costs	0	(2,951)
Curtailments	523	79
	9,602	**7,102**

Which as a percentage of payroll costs are:

	Year to 31.3.08	Year to 31.3.07
Service costs	21.0%	23.7%
Past Service Costs	(0%)	(7.0)%
Curtailments	1.2%	0.2%
	22.2%	**16.9%**

In arriving at the net operating expenditure further provision has been made for:

	Year to 31.3.08 £000	Year to 31.3.07 £000
Expected return on Employer assets	(16,208)	(14,693)
Interest on pension scheme liabilities	14,214	12,942
	(1,994)	**(1,751)**

Which as a percentage of payroll costs are:

	Year to 31.3.08	Year to 31.3.07
Expected return on Employer assets	(37.5%)	(35.0%)
Interest on pension scheme liabilities	32.9%	30.8%
	(4.6%)	**(4.2%)**

5. Retirement Benefits (continued)

Included within the Statement of Movement on the General Fund Balance is a contribution of £1.405 million (2006/07 £3.055 million) to the pension reserve. The net effect of these accounting entries is that expenditure met from government grants and local taxation equals the actual employer's contributions made to the Scheme of £9.013 million, representing 20.80% of pensionable pay (2006/07 £8.406 million or 20.00%).

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 2005, the funding level was 85% and that a period of 20 years had been adopted in assessing the level of contribution required to fund that deficiency. As a result, the effective employer's contribution is as follows:

2006/07	315% of employees' contribution
2007/08	320% of employees' contribution
2008/09	330% of employees' contribution

Ex gratia payments of £0.056 million representing 0.13% of pensionable pay were also made under Superannuation Regulations (2006/07 £0.056 million or 0.13%).

Further information regarding the Pension Fund can be found in Lothian Pension Fund's Annual Report which is available upon request from the Fund administrator, The City of Edinburgh Council or at www.lpf.org.uk.

In the year the Council paid an employer's contribution of £4.532 million (2006/07 £4.043 million) into the Teachers' pension scheme which is administered by the Scottish Government with ultimate responsibility falling on HM Treasury. The rate of contribution was 13.5%.

In accordance with Financial Reporting Standard No 17 – Retirement Benefits (FRS 17), the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees.

The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with HM Treasury.

The Council's assets and liabilities in Lothian Pension Fund amounted to:

	As at 31.3.08 £000	As at 31.3.07 £000
Estimated employer assets	220,625	221,463
Present value of scheme liabilities	(221,743)	(247,742)
Present value of unfunded liabilities	(11,655)	(12,629)
Net pension liabilities	**(12,773)**	**(38,908)**

Assets are valued at fair value, principally market value for investments, and consist of:

Class of Asset	% of Fund	£000	Long Term Return
Equities	75.9	167,486	7.7%
Bonds	8.9	19,592	5.7%
Property	11.9	26,269	5.7%
Cash	3.3	7,279	4.8%
		220,626	

Liabilities are valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted at their present value. The valuations are based on a full actuarial valuation as of 31 March 2005 and updated for the following three years by Hymans Robertson , the independent actuaries to the Lothian Pension Fund.

The main assumptions used in the calculations are:

	2007/08	2006/07
Price inflation	3.6%	3.2%
Salary increases	5.1%	4.7%
Pension increases	3.6%	3.2%
Discount rate	6.9%	5.4%

The net pension liability of £12.773 million (2006/07 £38.908 million) is less than useable reserves of £23.041 million by £10.268 million (2006/07 exceeded useable reserves by £20.814 million). The actuarial valuation considers the appropriate employers' rates and this together with the revenues generated from the investments will be utilised to meet the fund's commitments.

5. Retirement Benefits (continued)

Movement in deficit during the year

	Year to 31.3.08 £000	Year to 31.3.07 £000
Deficit at start of year	**(38,908)**	**(61,720)**
Current service costs	(9,079)	(9,974)
Employers' contributions	9,013	8,406
Past service costs	0	2,951
Impact of curtailments	(523)	(79)
Net return on assets	1,994	1,751
Actual less expected return on scheme assets	(22,261)	1,316
Gains / (Losses) on scheme liabilities	318	520
Changes in the financial assumptions underlying the present value of the scheme liabilities	46,673	17,921
Deficit at end of year	**(12,773)**	**(38,908)**

History of gains and losses

	Year to 31.3.08 £000	Year to 31.3.07 £000
Actual less expected return on scheme assets	(22,261)	1,316
Value of assets	220,625	221,463
Percentage of assets	**(10.1)%**	**0.6%**
Gains / (Losses) on scheme liabilities	318	520
Present value of liabilities	233,398	260,371
Percentage of present value of liabilities	**0.1%**	**0.2%**
Actuarial gains / (losses)	24,730	19,757
Present value of liabilities	233,398	260,371
Percentage of present value of liabilities	**10.6%**	**7.6%**

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 Midlothian 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.

6. Members' Salaries

The total salaries paid to elected members during the year was £0.388 million (2006/07 £0.408 million).

7. Number of Employees

At the end of the year the Council had 3,690 Full Time Equivalent employees (2006/07 3,613).

8. Employees' Remuneration

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

	2007/08	2006/07
£50,000 to £59,999	12	16
£60,000 to £69,999	10	7
£70,000 to £79,999	2	3
£80,000 to £89,999	3	4
£90,000 to £99,999	1	1
£100,000 to £109,999	1	0
£110,000 to £119,999	0	(note) 2

Note: In 2006/07 the remuneration for employees included in the £110,000 to £119,999 band includes termination payments. Without these payments one of the employees concerned would have been included in the £70,000 to £80,000 band with the other falling below the £50,000 band.

9. 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:

	Year to 31.3.08 £000	Year to 31.3.07 £000
Lothian and Borders Police Board	7,532	7,442
Lothian and Borders Fire Board	2,190	2,227
Lothian Valuation Board	556	555
Lothian Pension Fund	12,340	10,042

Creditors within the Balance Sheet include £0.740 million (2006/07 £0.695 million) due to Lothian Pension Fund.

10. Statutory Trading Accounts

The Local Government in Scotland Act 2003 repealed Compulsory Competitive Tendering and sets 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 2005/06 to 2007/08 each of the activities has achieved the required objective.

	Year to 31.3.08 £000	Preceding Years £000	3 year surplus £000
Building Maintenance			
Turnover	5,780	12,183	
Surplus/ (Deficit)	(202)	271	69
Roads Maintenance			
Turnover	5,697	11,170	
Surplus/ (Deficit)	207	189	396
Investment Properties			
Turnover	788	1,591	
Surplus	578	767	1,345

The surplus on Statutory Trading Activities identified on the Income and Expenditure Account includes Building Maintenance and Investment Properties. In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006, 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 not reflected in the figures shown above but would not result in a failure to achieve the Statutory objective if it were.

11. 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. 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 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.

Under the Dalkeith Campus agreement the Council paid £4.545 million in 2007/08 (2006/07 £4.482 million) and is committed to paying a further £131.269 million (in cash terms assuming a 2.5% increase in inflation index). This equates to £5.140 million per annum over the remaining life of the contract.

Under the Primary Schools agreement the Council paid £0.665 million and is committed to paying a further £169.233 million (in cash terms assuming a 2.5% increase in inflation index). This equates to £5.734 million per annum over the remaining life of the contract.

In accordance with the relevant accounting standards £1.200 million (2006/07 £1.200 million) of the contractual payments have been recognised as a long term debtor, representing the proportion of the contractual payments which are attributable to the asset which will transfer to Council Ownership at the end of the contract period. These long term debtors now total £5.3 million.

12. Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice is £0.244 million (2006/07 £0.241 million). No fees were paid in respect of other services provided by the appointed auditor.

13. Equal Pay

Included in the Net Cost of Continuing Operations is expenditure of £1.623 million (2006/07 £1.443 million) in respect of settling Equal Pay claims under the Equal Pay Act 1970. At 31 March 2008 £4.215 million of claims have been settled and an estimate of £3.360 million for outstanding claims has been provided for in creditors.

14. Capital Expenditure

2006/07 **£000**	**Service Summary of Gross Capital Expenditure**	2007/08 **£000**
	General Fund Services:	
6,709	Education	6,818
616	Social Work	5,180
3,659	Roads and Transportation Services	4,915
1,966	Planning and Development Services	249
8,580	Cultural and Related Services	1,622
2,514	Other Services	5,874
24,044	**General Fund Services Total**	**24,658**
13,284	**Housing Revenue Account**	**28,409**
37,328	**Total Capital Expenditure**	**53,067**

2006/07 **£000**	**Analysis of Capital Expenditure and Capital Financing**	2007/08 **£000**
	Fixed Assets:	
3,710	Site and Building Acquisitions	6,158
21,490	Building Works	34,049
3,449	Road Works	4,915
792	Professional Fees	3,889
4,332	Vehicles and Plant	1,608
2,355	Other	1,248
36,128	**Fixed Assets Total**	**51,867**
1,200	Dalkeith Schools Campus Residual Asset	1,200
37,328	**Gross Capital Expenditure Total**	**53,067**
	Capital Financing:	
11,020	Capital Receipts – Sale of Council Houses	5,409
6,051	Government Grants	15,406
3,691	Contribution from Other Bodies	3,304
32	Other receipts	453
1,410	Revenue Contributions to Capital	1,231
15,124	Advances from Loans Fund	27,264
37,328	**Capital Financing Total**	**53,067**

15. 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.

2006/07	Capital Receipts from the disposal of fixed assets	2007/08
£000		**£000**
	Gross Capital Receipts during year:	
6,111	Sale of Council Houses	5,409
11,509	Other Land and Buildings	3,711
0	Rights over Land	11
31	Vehicles	97
17,651	**Gross Capital Receipts Total**	**9,228**
	Capital Receipts:	
11,051	Utilised in the year	5,409
6,600	Retained and transferred to the Capital Fund	3,819
17,651	**Capital Receipts Applied Total**	**9,228**

16. 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 most recent results of the company are as follows:

	Year to 31 March 2008	Year to 31 March 2007
	£000	**£000**
Turnover	2	2
Loss	45	42
Retained losses	1,156	1,111
Net assets at end of year	(467)	(421)

Shawfair Developments Limited

Midlothian Council has a 37.5% 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 75 £1 "A" shares.

The most recent results of the company are as follows:

	Year to 31 March 2008	Year to 31 March 2007
	£000	**£000**
Turnover	0	15
Loss	277	421
Retained losses	1,934	1,657
Net assets at end of year	(1,934)	(1,657)

17. 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 most recent results of the company are as follows:

	Year to 31 December 2007 **£000**	Year to 31 December 2006 **£000**
Turnover	99,477	89,522
Profit before taxation	10,200	7,316
Taxation	(449)	2,677
Profit after taxation	10,649	4,639
Ordinary dividend	2,198	2,198
Transfer to / (from) reserves	8,451	2,441
Net assets at end of year	54,917	33,284

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

18. Movement in Fixed Assets

	Houses	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Non Operational Assets	Total
	£000	£000	£000	£000	£000	£000	£000
Gross Book value as at 31 March 2007	**325,794**	**193,107**	**14,262**	**26,163**	**197**	**58,692**	**618,215**
Additions	10,391	7,388	2,701	6,120	0	25,267	51,867
Disposals	(5,510)	(3,414)	(74)	0	0	(537)	(9,535)
Upwards Revaluations and Restatements	62,276	19,681	0	0	586	15,818	98,361
Impairments	0	(10,647)	0	0	(55)	(798)	(11,500)
Reclassifications	0	(5,257)	0	0	0	5,257	0
Gross Book value at 31 March 2008	**392,951**	**200,858**	**16,889**	**32,283**	**728**	**103,699**	**747,408**
Depreciation as at 31 March 2007	**(3,788)**	**(30,010)**	**(6,240)**	**(8,457)**	**(38)**	**(2)**	**(48,535)**
Depreciation for the year	(8,617)	(8,035)	(2,411)	(1,652)	(2)	1	(20,716)
Write back depreciation on upward revaluations	7,195	4,428	0	0	0	1	11,624
Write back depreciation on impairments	0	2489	0	0	38	0	2,527
Depreciation as at 31 March 2008	**(5,210)**	**(31,128)**	**(8,651)**	**(10,109)**	**(2)**	**0**	**(55,100)**
Net book value as at 31 March 2007	**322,006**	**163,097**	**8,022**	**17,706**	**159**	**58,690**	**569,680**
Net book value as at 31 March 2008	**387,741**	**169,730**	**8,238**	**22,174**	**726**	**103,699**	**692,308**

18 Movement in Fixed Assets (continued)
Non Operational Assets

	Assets Under Construction	Investment Properties	Surplus Assets	Total
	£000	£000	£000	£000
Gross Book value as at 31 March 2007	**21,438**	**20,945**	**16,309**	**58,692**
Additions	25,049	0	218	25,267
Disposals	0	(351)	(186)	(537)
Upwards Revaluations and Restatements	0	10,397	5,421	15,818
Impairments	0	(798)	0	(798)
Reclassifications	(1,322)	0	6,579	5,257
Gross Book Value at 31 March 2008	**45,165**	**30,193**	**28,341**	**103,699**
Depreciation as at 31 March 2007	**0**	**(2)**	**0**	**(2)**
Depreciation for the year	0	1	0	1
Write back depreciation on upward revaluations	0	1	0	1
Depreciation as at 31 March 2008	**0**	**0**	**0**	**0**
Net Book Value as at 31 March 2007	**21,438**	**20,943**	**16,309**	**58,690**
Net Book Value as at 31 March 2008	**45,165**	**30,193**	**28,341**	**103,699**

19. Fixed Asset Valuation

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

	Houses	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Non Operational Assets	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Valued at Historic Cost	18,592	8,290	16,889	32,283	21	39,574	115,649
Valued at Current Value in:							
2007/08	374,359	57,596	-	-	623	53,902	486,480
2006/07	-	2,325	-	-	0	1,162	3,487
2005/06	-	22,601	-	-	0	1,682	24,283
2004/05	-	32,264	-	-	0	6,558	38,822
2003/04	-	77,782	-	-	84	821	78,687
Total	**392,951**	**200,858**	**16,889**	**32,283**	**728**	**103,699**	**747,408**

Houses are revalued each year using the Beacon principle based on valuations carried out by the District Valuer. 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 an external valuer. 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 2007 giving a total revaluation of £101.108 million. Land, housing stock, 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 (44 years), Community assets (0 to 50 years), Infrastructure (15 years), Non operational assets (0 to 75 years), Operational assets (0 to 50 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).

The depreciation provision at the year end was £55.100 million (2006/07 £48.534 million). Downward revaluations of fixed assets have been charged to the Income and Expenditure Account as 2007/08 is the first year of the Revaluation Reserve.

20. Commitments under Capital Contracts

At the end of the year, the Council was contractually committed to capital works which amounted to approximately £26.083 million (2006/07 £4.035 million).

21. Analysis of net assets employed

	2007/08	2006/07
	£000	**£000**
General Fund	215,146	132,449
Housing Revenue Account	327,509	297,321
	542,655	**429,770**

22. Information on number of assets held

	As at March 2008	As at March 2007
Council Houses	**6,065**	**6,088**
Operational Buildings		
- Social Work Homes etc	10	11
- Leisure Centres	12	12
- Libraries	9	9
- Nursery Schools	5	6
- Primary Schools	22	35
- Secondary Schools	4	4
- Offices	23	23
- Depots	5	5
- Car Parks	10	10
Operational Equipment		
- Vehicles & Plant	387	389
Infrastructure Assets		
- Highways (km)	642	638
- Bridges	209	209
- Footpaths (km)	632	628
Community Assets		
- Parks	43	43
- Cemeteries	28	28

23. Debtors

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

2006/07		2007/08	2007/08
£000		£000	£000
21,791	Council Tax and Community Charge	21,462	
(20,296)	Less: provision	(20,741)	721
2,298	Non Domestic Rates	1,947	
(1,503)	Less: provision	(1,637)	310
1,345	House Rents	1,528	
(430)	Less: provision	(320)	1,208
1,749	Grants		635
8,804	External Debtor accounts and other Income due	5,950	
(746)	Less: provision	(873)	5,077
1,408	VAT Recoverable		2,326
14,420	**Net Debtors**		**10,277**

24. Creditors

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

2006/07		**2007/08**
£000		**£000**
626	External Loan Interest payable	32
7,316	Payroll Costs Due	4,788
547	Payments due under Capital Contracts	6,996
19,814	Sundry Creditors	15,527
28,303	**Total Creditors**	**27,343**

25. Other Provisions

These include a provision of £0.158 million (2006/07 £0.568 million) in respect of the self-insured element of public and employers' liability claims and a provision of £0.376 million (2006/07 £0.376 million) in respect of accumulated losses of subsidiaries.

26. Long Term Debtors

Long Term Debtors within the Balance Sheet include £5.3 million (2006/07 £4.1 million) in respect of the element of the annual payment for the Dalkeith Campus Project which is, in effect, payment for the assets. The current value is estimated at £35.0 million and the assets will transfer to the Council at the end of the contract period.

27. Reserves

The movements in Reserves are as follows:

	Balance Brought Forward £000	(Gains) / Losses for the year £000	Transfers between Reserves £000	Balance Carried Forward £000
Fixed Asset Restatement Account	(403,215)	0	403,215	0
Capital Financing Account	(47,370)	0	47,370	0
Capital Adjustment Account	0	0	(435,880)	(435,880)
Revaluation Reserve	0	(109,985)	9,142	(100,843)
Pension Reserve	38,908	(24,730)	(1,405)	12,773
Financial Instruments Adjustment Account	0	3,716	620	4,336
Insurance Fund	(1,002)	0	(777)	(1,779)
Capital Fund	0	3,819	(3,819)	0
Housing Revenue Account	(7,267)	0	(2,231)	(9,498)
General Fund Reserve	(9,825)	14,296	(16,235)	(11,764)
Total	**(429,771)**	**(112,884)**	**0**	**(542,655)**

The 2007 SORP replaces the Fixed Asset Restatement Account and the Capital Financing Reserve with the Capital Adjustment Account.

This is set up under the system of capital accounting and is not available for use**.**

The Revaluation Reserve is introduced in the 2007 SORP. The balance on 1 April 2007 is zero. 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 Notes 4 and 5 for details.

The Insurance Fund is earmarked for insurance purposes.

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

The Housing Revenue Account Reserve represents the accumulated balance on the Housing Revenue Account at 31 March 2008.

The General Fund Reserve represents the accumulated balance on Midlothian Council Revenue Account at 31 March 2008.

28. Midlothian Council Trusts, Bequests and Common Good Fund

There are some 21 trusts and 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 31.3.08 £000**	**As at 31.3.07 £000**
Dalkeith Common Good	64	78
Penicuik Common Good	8	8
Community Mining Funds	126	125
Other Funds	80	76
Total	**278**	**287**

The funds do not represent assets of the Council and are included in the Balance Sheet as creditors.

On the Common Good funds there was expenditure of £0.017 million on the distribution of grants to individuals and organisations and £0.002 million on other expenses. Interest received from investments in the Council's Loans Fund was £0.004 million giving a net deficit for the year of £0.014 million. The balance of the funds are invested in the Council's Loans Fund.

The changes to the SORP for Charitable Trusts was not adopted in 2007/08 on the grounds of materiality

29. Devolved School Management

The net amount of unspent balances held by schools under the scheme is £0.395 million (2006/07 £0.737 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

30. Finance Leases

There are no finance leases included in the balance sheet at 31 March 2008.

31. Events after the Balance Sheet date
There were no events that occurred between 1st April 2008 and 29th September that would have an impact on the financial statements.

32. Contingent Liability
Midlothian Council has provided finance and guaranteed the debts of Pacific Shelf 826 Ltd, which is a wholly owned subsidiary. The amount advanced at 31 March 2008 amounted to £0.896 million (31 March 2007 £0.863 million)

Until the Council has implemented the Single Status agreement there is a risk of further equal pay claims. This is unquantifiable at the present time.

33. Financial Instruments
The Statement of Recommended Practice 2007 (SORP) requires a major change of accounting policy to be implemented with effect from 1 April 2007. This change requires that most financial instruments must, in 2007/08 and future years, be valued at amortised cost using the effective interest rate (EIR) of interest method. It should be noted that figures for 2006/07 have not been restated and therefore direct comparison is not possible. This is a one-off situation thus will not occur in future years.

The SORP also requires that in these disclosures notes financial instruments are to be shown at fair value. Fair value is defined as the amount for which an asset could be exchanged for or a liability settled, assuming that 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. Again, no direct comparison with 2006/07 is possible.

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 31.3.08 £000	Current 31.3.08 £000
Borrowings		
Financial Liabilities at amortised cost	153,429	3,420
Investments		
Loans and Receivables		73,949

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 are based on paragraph B12 of SORP 2007 which states that 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 no significant gains and losses on financial instruments recognised in the Income and Expenditure Account and Statement of Total Recognised Gains Losses arising during the year.

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. We have not calculated fair values as at 31 March 2007.

The fair value of an instrument is determined by calculating the Net Present Value of future cash flows, which provides as 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 in 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, using bid prices where applicable.

Notes to the Core Financial Statements (continued)

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 064/08 issued by PWLB on 31st March 2008;
- For other market debt and investments the discount rate used is the rates 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:

	31.3.08 Carrying Amount £000	31.3.08 Fair Value £000
Borrowings		
PWLB	134,277	135,611
LOBO	20,865	20,567
European Investment Bank	41	46
Bank Overdraft	1,352	1,352
Short term borrowing	314	314
Total	**156,849**	**157,890**

Fair values of assets are calculated as:

	31.3.08 Carrying Amount £000	31.3.08 Fair Value £000
Investments		
Cash	20,954	20,954
Deposits with Banks and Building Societies	53,005	52,964
Total	**73,949**	**73,918**

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 £10m.

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 2008 £000	Historical experience of default %	Historical experience adjusted for market conditions as at 31 March 2008 %	Estimated maximum exposure to default and non collectable amounts £000
Deposits with banks and other financial institutions	73,949	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 2008 £000
Less than 3 months	35,189
3 to 6 months	13,760
6 months to 1 year	25,000
More than 1 year	0
Total	**73,949**

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):

0n 31 March 2008 £000	**Loans Outstanding**	On 31 March 2007 £000
133,426	PWLB	115,446
20,000	Market Debt	15,000
3,363	Temporary Borrowing	1,190
39	Other	55
156,828	**Total**	**131,691**
3,399	Less than 1 year	1,222
24	Between 1 and 2 years	35
10,085	Between 2 and 5 years	77
2,137	Between 5 and 10 years	4,418
141,183	More than 10 years	125,939
156,828	**Total**	**131,691**

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 summarized 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.

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 2008, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

Interest Rate Risk

	£000
Increase in interest payable on variable rate borrowings	8
Increase in interest receivable on variable rate instruments	626
Increase in government grant receivable for financing costs	0
Impact on Income and Expenditure Account	**618**
Share of overall impact credited to the HRA	**82**
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.

Price Risk

The Council has no investments held as available for sale and therefore has no exposure to this risk.

Foreign Exchange Risk

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

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

	2007/08 £000	2007/08 £000
Deficit on the Income and Expenditure Account		18,115
Non cash items:		
Depreciation, downward revaluations and impairments	(29,689)	
Other non cash items	1,177	
Movement in Stocks	48	
Movement in Long Term Debtors	(1,278)	
Movements in Net Debtors	4,141	
Movement in Creditors	(960)	
Movement in Other Provisions	(411)	
		(26,972)
Net Cash inflow from Revenue Activities		**(8,857)**

35. Reconciliation of the movement in cash to the movement in Net Debt

	2007/08 £000
(Increase) / Decrease in Cash and Bank in year	10,402
(Increase) / Decrease in Liquid Resources	(21,005)
(Increase) / Decrease in Debt in year	23,186
Increase in Net Debt in year	**12,583**

Analysis of Net Debt	31.03.07	31.03.08	Movement
Investments	(32,000)	(53,005)	(21,005)
Cash and Bank	(33,399)	(20,994)	12,405
Short Term Borrowing	1,222	314	(908)
Bank Overdraft	3,356	1,352	(2,004)
Long Term Borrowing	130,469	154,564	24,095
Total Debt	**69,648**	**82,231**	**12,583**

36. Management of Financing

Management of Financing	31.03.07	31.03.08	Movement
Short Term Borrowing	1,222	314	(908)
PWLB Loans	115,414	133,921	18,507
Long Term – Market	15,000	20,322	5,322
European Investment Bank	55	39	(16)
Net Financing – per Cash Flow Statement	**131,691**	**154,596**	**22,905**

37. Analysis of Government Grants

	2007/08 £000	2007/08 £000
Revenue Support Grant		96,578
DWP Benefit Subsidy		18,288
Other Government Grants:		
Criminal Justice	950	
Supporting People	5,396	
Changing Children's Services Fund	478	
Mental Illness	266	
Sheltered Employment	53	
Social Work Training	79	
Employment Initiatives	586	
Rural Transport	71	
Education Grants	6,780	
Strategic Waste Fund	1,678	
Other Grants	2,350	18,687
		133,553

Housing Revenue Account Income and Expenditure Account for the Year ended 31 March 2008

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

2006/07		2007/08	per house per week
£000		**£000**	£
	Income		
12,726	Gross dwelling rents	13,533	42.10
349	Non dwelling rents	368	1.14
428	Other Income	698	2.17
13,503		**14,599**	**45.41**
	Expenditure		
5,726	Repairs and Maintenance	5,014	15.60
3,254	Supervision and Management	3,679	11.44
7,387	Depreciation and Impairment of Fixed Assets	8,731	27.16
2,046	Other Expenditure	2,245	6.98
26	Increase / (Decrease) in Bad Debt Provision	52	0.16
18,439		**19,721**	**61.34**
4,936	**Net Cost of HRA services per the whole authority Income and Expenditure Account**	**5,122**	**15.93**
95	HRA share of Corporate and Democratic Core	95	0.30
5,031	**Net Cost of HRA Services**	**5,217**	**16.23**
	HRA share of the operating income and expenditure included in the whole authority accounts		
109	Loss / (Gain) on sale of HRA fixed assets	102	(0.72)
182	Interest Payable and similar charges	649	2.02
(273)	Interest and Investment Income	(469)	(1.46)
(115)	Pensions Interest Cost and Expected Return on Pension Asset	(143)	(0.44)
4,934	**Deficit / (Surplus) for the year on the HRA Services**	**5,356**	**15.63**

Statement of Movement on the HRA Balance for the Year ended 31 March 2008

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.

2006/07		2007/08	per house
£000		**£000**	per week
4,934	Deficit for the year on the HRA Income & Expenditure Account	5,356	15.63
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
(109)	Gain/(loss) on sale of HRA fixed assets	(102)	0.72
(7,251)	Transfer to/(from) Capital Adjustment Account	(8,441)	(26.26)
1,055	Transfer to/(from) General Fund	1,000	3.11
(137)	HRA share of contributions to/from pension reserve	(44)	(0.14)
(1,508)	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**(2,231)**	**(6.94)**
(5,759)	Housing Revenue Account Balance brought forward	**(7,267)**	**(22.61)**
(7,267)	**Housing Revenue Account Balance carried forward**	**(9,498)**	**(29.55)**

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 2008 the Council had 6,065 houses (31 March 2007 6,088) which can be analysed as follows:

Type of Dwelling	2007/08 Number	2006/07 Number
1 / 2 Apartments	779	790
3 Apartments	3,430	3,449
4 Apartments	1,588	1,579
5 / 6 Apartments	268	270
Total	**6,065**	**6,088**

3. Rent Arrears

At the end of the year rent arrears amounted to £1.528 million (2006/07 £1.622 million) for which a provision for bad and doubtful debts of £0.320 million (2006/07 £0.430 million) exists.

Council Tax Income Account for the Year ended 31 March 2008

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.

2006/07		2007/08
£000		**£000**
39,994	Gross Council Tax levied	40,689
	Less :	
4,306	Discounts	4,403
1,068	Provision for bad & doubtful debts	1,081
(52)	Council Tax Benefits (net of Government Grant)	(126)
34,672		**35,331**
200	Adjustments to previous years	409
34,872	**Net Council Tax income for the Year**	**35,740**

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	1,025	11,878	9,816	3,981	4,120	2,169	1,503	159	34,651
Disabled relief	53	(4)	(15)	(8)	(12)	(2)	(12)	0	0
Less									
Exemptions	58	380	238	61	173	34	27	5	976
Discounts (25%)	160	1,351	782	260	194	73	40	4	2,864
Discounts (50%)	1	14	14	7	7	3	3	0	49
Other Discounts	2	9	9	5	5	3	2	1	36
Effective properties	857	10,120	8,758	3,640	3,729	2,054	1,419	149	30,726
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D equivalents	571	7,871	7,785	3,640	4,558	2,967	2,365	298	30,055
Contributions in lieu – Band D equivalents									237
Total									**30,292**
Provision for non payment									(909)
Council Tax Base									**29,383**

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

Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
No's	857	10,120	8,758	3,640	3,729	2,054	1,419	149	30,726
£	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 2008

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.

2006/07		2007/08
£000		**£000**
24,644	Gross rates levied	24,888
	Less:	
4,811	Reliefs and other deductions	4,618
1	Interest paid	14
512	Provision for bad & doubtful debts	522
(354)	Adjustments to previous years	37
19,674	**Net Non Domestic Rate Income**	**19,697**
	Allocated:	
19,735	Contribution to national non-domestic rates pool	19,756
(61)	Midlothian Council	(59)
19,674		**19,697**

Notes

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £28.906 million (2006/07 £29.530 million).

2. Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Midlothian. The non-domestic rate poundage is determined by the Scottish Executive, and was 44.1p per £, where the rateable value was less than or equal to £29,000 and 44.4p per £ where the rateable value exceeded £29,000. Properties which had a rateable value of £11,500 or less received a minimum Small Business Rate Relief of 5%.

3. Rateable Value as at the start of the year (comparatives in brackets)

	Number	Rateable Value £000
Shops, Offices and Other Commercial Subjects	1,499 (1,471)	32,753 (32,313)
Industrial and Freight Transport	814 (802)	12,787 (12,541)
Miscellaneous (Schools etc)	313 (317)	11,280 (11,292)
	2,626 (2,590)	**56,820 (56,146)**

Group Accounting Policies

1. Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2007: 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 and one associate company, and considers three Joint Boards as Associates.

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.

Associate - The Council has a 37.5% shareholding in Shawfair Developments Limited (SD Ltd). The company, incorporated on 6 June 2001, has its registered office at City Chambers, High Street, Edinburgh, EH1 1YJ. The purpose of the company is to provide a vehicle to develop its shareholders' interests in the South-East Wedge.

The accounts of these companies 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 Executive 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 3 to 5 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. The Police and Fire Joint Boards have used the same assumptions as those used by Midlothian Council in their separate calculations to arrive at their net pension liability i.e. price increases, salary increases, pensions increases and discount rates.

Group Income & Expenditure Account for the Year ended 31 March 2008

2006/07 Net Expenditure £000	Service	Gross Expenditure £000	Gross Income £000	2007/08 Net Expenditure £000
75,718	Education Services	97,112	9,844	87,268
39,018	Social Work	48,360	8,288	40,072
10,968	Culture and Related Services	14,713	3,740	10,973
8,241	Roads and Transport Services	9,143	2,387	6,756
7,442	Police Services	7,532	0	7,532
6,382	Environmental Services	9,462	3,493	5,969
3,390	Planning and Development Services	5,840	2,481	3,359
2,227	Fire Services	2,190	0	2,190
4,936	Housing Revenue Account	19,904	14,782	5,122
1,940	Other Housing Services	22,785	20,037	2,748
2,760	Corporate & Democratic Core	3,565	773	2,792
1,982	Central Services to the Public	1,197	0	1,197
(2,089)	Non-distributable Costs	1,265	0	1,265
162,915	**Net Cost of Services**	**243,068**	**65,825**	**177,243**
1,788	Share of Operating Results of Associates			820
226	(Gains)/Losses on Disposal of Fixed Assets			301
(771)	Net (Surplus)/Deficit on Trading Operations			(376)
4,832	Group Interest Payable			5,720
(1,635)	Group Interest & Investment Income Received			(2,115)
5,630	Pensions Interest Cost and Expected Return on Pension Assets			(1,994)
(1,751)	Pensions Interest Cost and Expected Return on Pension Assets of Associates			6,276
171,234	**Net Expenditure**			**185,875**
	Income from taxation and general government grants			
(34,872)	Council Tax			(35,740)
(88,278)	Revenue Support Grant			(95,966)
(29,469)	Non-domestic Rates			(28,847)
18,615	**Group Deficit/(Surplus) for the Year**			**25,322**

Reconciliation of the Single Entity Surplus or Deficit for the Year to the Group Surplus or 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.

2006/07 Net Expenditure £000		2007/08 Net Expenditure £000
11,016	**Deficit on the Council's single entity Income and Expenditure Account for the year**	**18,115**
37	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	9
	(Surplus) or deficit arising from other entities included in the group accounts analysed into the amounts attributable to:	
42	- Subsidiaries	46
7,520	- Associates	7,152
18,615	**Deficit for the Year on the Group Income and Expenditure Account**	**25,322**

Group Statement of Total Recognised Gains and Losses for the Year ended 31 March 2008

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

2006/07 Net Expenditure £000		2007/08 Net Expenditure £000
18,615	**Deficit on the Group Income and Expenditure Account for the year**	**25,322**
(21,072)	Deficit/(Surplus) on the revaluation of fixed assets	(110,056)
(29,657)	Actuarial loss/(gain) on pension assets and liabilities	(52,257)
0	(Gain) / Loss arising on Financial Instruments Adjustment Account	3,719
566	Other losses/(gains)	3,260
(31,548)	**Total Recognised (Gains) and Losses for the Year**	**(130,012)**

Group Balance Sheet
as at 31 March 2008

	As at 31 March 2007				As at 31 March 2008
£000	**£000**		**£000**	**£000**	**£000**
		Tangible Fixed Assets			
		Operational Assets			
322,006		Council Houses		387,741	
163,097		Other Land and Buildings		169,730	
8,022		Vehicles, Plant and Equipment		8,238	
17,706		Infrastructure Assets		22,174	
159		Community Assets		726	
	510,990				588,609
		Non-operational Assets			
20,942		Investment Properties		30,193	
21,438		Assets Under Construction		45,165	
16,309		Surplus Assets, held for disposal		28,341	
	58,689				103,699
	350	Long-term Investments			350
	(111,821)	Investments Share of net Assets of Associates			(94,639)
	5,597	Long-term Debtors			7,343
	3,949	Deferred Premiums on Early Repayment of Debt			0
	467,754				**605,362**
		Current Assets			
	643	Stocks and Work in Progress		596	
37,820		Debtors	33,715		
(22,975)	14,845	Less: Bad Debt Provision	(23,571)	10,144	
	32,000	Investments		53,005	
	33,399	Cash and Bank		20,994	
	80,887				84,739
		Current Liabilities			
1,222		Borrowing repayable on demand or within 12 months		314	
28,396		Creditors		27,399	
3,356		Bank Overdraft		1,352	
	32,974				29,065
	515,667	**Total Assets less Current Liabilities**			**661,036**
	130,469	Borrowing repayable within a period in excess of 12 months			155,183
	27,531	Government and other Grants Deferred			44,719
	38,908	Liability related to Defined Benefit Pension Scheme			12,773
	566	Other Provisions			156
	318,193	**Total Assets less Liabilities**			**448,205**
		Financed By:			
	403,215	Fixed Asset Restatement Account			0
	0	Capital Adjustment Account			435,880
	47,370	Capital Financing Account			0
	0	Revaluation Reserve			100,843
	0	Financial Instruments Adjustment Account			(4,336)
	(38,908)	Pension Reserve			(12,773)
	(116,407)	Share of Pension Reserve of Joint Boards			(99,522)
	1,003	Insurance Fund			1,779
	7,267	Housing Revenue Account Reserve			9,498
	9,825	General Fund Reserve			11,764
	203	Share of Group Realisable Reserves			53
	4,338	Group Other Reserves			4,741
	287	Trusts and Bequests			278
	318,193	**Total Balances and Reserves**			**448,205**

The unaudited accounts were issued on 12th June 2008 and the audited accounts were authorised for issue on 29th September 2008.

Signed:
Ian Jackson,
Director, Corporate Services, Midlothian Council

Group Cash Flow Statement
for the Year ended 31 March 2008

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.

2006/07			2007/08
£000		**£000**	**£000**
(7,975)	**Net cash inflow from revenue activities** (note 1)		**(8,855)**
	Net cash inflow/outflow from servicing of finance		
4,761	Interest paid		5,757
(1,855)	Interest received		(3,569)
	Net cash inflow/outflow from capital activities		
35,786	Purchase of fixed assets		45,476
(17,761)	Sale of fixed assets		(9,276)
(11,038)	Capital grants received		(13,186)
0	Developer Contributions		(3,265)
(32)	Other capital cash receipts		(453)
1,886	**Net cash inflow/outflow before financing**		**12,629**
	Management of liquid resources		
32,000	Net increase in short term deposits		20,724
	Financing		
45,095	Repayment of amount borrowed		12,739
(84,062)	New loans raised		(35,644)
(5,081)	**Net (Increase)/Decrease in Cash**		**10,448**

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		**25,322**
Depreciation, downward revaluations and impairments	(29,689)	
Other Adjustments not involving movement of funds	(6,029)	
Movement in Stocks	48	
Movement in Long Term Debtors	(1,278)	
Movement in Net Debtors	4,142	
Movement in Creditors	(960)	
Movement in other Provisions	(411)	
		(34,177)
Net cash inflow from revenue activities		**(8,855)**

Notes to the Groups Core Financial Statements

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

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.

Associate - The Council has a 37.5% shareholding in Shawfair Developments Limited (SD Ltd). The company, incorporated on 6 June 2001, has its registered office at City Chambers, High Street, Edinburgh, EH1 1YJ. The purpose of the company is to provide a vehicle to develop its shareholders' interests in the South-East Wedge.

The accounts of these companies 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 £94.449 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 2008 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 2007 - A Statement of Recommended Practice (the 2007 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 present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also 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 Corporate Governance Assurance 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 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 Director, Corporate Services in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's and its group circumstances, consistently applied and adequately disclosed.

INDEPENDENT AUDITOR'S REPORT (continued)

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

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of Midlothian Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Gillian Woolman ACA, Assistant Director

Audit Scotland – Audit Services

Osborne House, 1/5 Osborne Terrace

Edinburgh, EH12 5HG

30 September 2008

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.

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.

Glossary of Terms

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. 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.

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

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

20. 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.

21. 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.

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

23. 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.

24. 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.

25. 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.