Midlothian

Midlothian Council
Audited
Financial Statements
2011/12

Financial Statement 2011/12
Contents

Explanatory Foreword by the Head of Finance and Human Resources

Introduction
The Financial Statements present the financial performance of the Council for the year to 31 March 2012. They also include Group Financial Statements which include Council's interests in material subsidiaries and associates.

The Financial Statements follow approved accounting standards and are necessarily technical in parts. The purpose of this foreword is to briefly explain the principal items of interest or note within the Statements.

The Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice in the United Kingdom (The Code).

Financial Statements
The purpose of each of the Financial Statements is outlined below:

Statement of Responsibilities for the Financial Statements
This sets out the respective responsibilities of the Council and the Head of Finance and Human Resources (Chief Finance Officer).

Annual Governance Statement
This sets out how the Council delivers good governance and reviews the effectiveness of these arrangements.

Movement in Reserves Statement
This statement shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure) and other reserves. The surplus or deficit on the provision of services line shows the true economic cost of providing Council services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

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

Balance Sheet
The Balance Sheet shows the value as at the Balance Sheet date of assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council.

Cash Flow Statement
The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the year. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financial activities.

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

Explanatory Foreword by the Head of Finance and Human Resources

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

The Housing Revenue Account (HRA)
The HRA reflects the statutory requirement to account separately for local authority housing provision, as defined in the Housing (Scotland) Act 1987. The Income and Expenditure Statement reports the net cost for the year and shows how these costs were funded from rents and other income. The Movement in HRA balances reconciles the financial position shown in the Comprehensive Income and Expenditure Statement to the movement in the HRA reserve for the year.

The Council Tax Income Account
The Council Tax Income Account shows the gross and net income from Council Tax together with details of the number of properties on which the Council Tax is levied, and the charge per property.

The Non-Domestic Rates Income Account
The Non-Domestic Rates Income Account shows the gross and net income from Non-Domestic Rates and details the amount payable to the National Non-Domestic Rates pool.

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

- Group Movement in Reserves Statement;
- Group Comprehensive Income and Expenditure Statement;
- Group Balance Sheet;
- Group Cash Flow Statement.

Trust Funds and Common Goods Funds have been consolidated in the group together with Pacific Shelf 826 Ltd which is a wholly owned subsidiary. Lothian and Borders Police Board, Lothian and Borders Fire and Rescue Board and Lothian Valuation Joint Board are also consolidated and are considered associates.

Financial Performance
The review of financial performance is based on management accounting information reported to Council, rather than the audited Financial Statements which are presented on an IFRS basis.

For the year ended 31 March 2012 services underspent against the revised budget by £1.589 million. Full details of the reasons for this underspend are set out in the Final Outturn reported to Council on 26th June 2012 which is available on the Council website.

The General Fund Reserve at the start of the year was £12.288 million and it was expected that this would be reduced by £0.384 million in the year. The actual position is a reserve of £14.220 million of which £7.294 million has been earmarked for specific purposes leaving £6.926 million as a contingency.

In 2009/10 the Scottish Government granted the council consent to borrow to fund equal pay costs. In 2011/12 £1.000 million was capitalised and increased the General Fund reserve. At 31 March 2012 the Balance Sheet includes a provision of £2.214 million for outstanding equal pay claims.

Explanatory Foreword by the Head of Finance and Human Resources

Housing Revenue Account
When the HRA budget for the year was set it was anticipated that expenditure would exceed income by £0.591 million and reduce the reserve to £11.089 million. In the event variations in income and expenditure resulted in a reserve at 31 March 2012 of £11.709 million. Full details of the HRA outturn are set out in the Housing Revenue Account Final Outturn 2011/12 and Capital Plan 2012/13 to 2014/15 report to Council on 26th June 2012 which is available on the Council website.

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

- Building Maintenance Services;
- Roads Maintenance Serves.

Building Maintenance Services and Roads Maintenance Services both met their statutory objective. More details are provided in Note 28 to the Financial Statements.

Capital
The Local Government in Scotland Act 2003 requires that the Council must determine and keep under review how much it can afford to spend on capital projects. In 2011/12 capital expenditure totalled £45.380 million. The most significant capital project was the building of Council houses totalling £17.647 million.

The main sources of funding used for investing in council assets were the realisation of capital receipts of £1.754 million, grants of £15.662 million, developer and other contributions of £2.240 million and borrowing of £24.596 million. A full analysis of capital income and expenditure is provided in note 35 to the Financial Statements.

Long-term Borrowing
The Council borrowed money throughout the year to meet anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. At 31 March 2012 external borrowing amounted to £143.020 million. The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the Public Works Loans Board. Further details are provided in note 13 to the Financial Statements.

Net Pension Liability
The net pension liability of the Group as at 31 March 2012 was calculated in accordance with the requirements of International Accounting Standard 19 (IAS 19) and amounts to £221.420 million. This comprises £55.012 million in respect of the Council and £166.408 million for group entities.

IAS 19 is based on the principle that an organisation should account for retirement benefits at the point at which it commits to paying them, even if the actual payment will be made years into the future.

It should be noted this is a snapshop of the position at 31st March 2012. The actuarial valuation of the Lothian Pension Fund, which takes a longer term view, will consider the appropriate employer's rates and this, together with revenues generated from the Pension Fund investments, will be used to meet the fund's commitments as they arise. The actuarial valuation at 31 March 2011 shows a funding level of 98% of liabilities which is a considerable improvement from 85% funding at the last valuation at 31st March 2008.

Explanatory Foreword by the Head of Finance and Human Resources

Current Economic Climate
The current economic climate impacts on the Council and the services it provides in a number of ways. From a financial perspective 2011/12 saw a continued reduction in income from planning applications and building warrants, reflecting the continued depressed state of private housing sector development.

In addition cuts in the UK Government and the subsequent Scottish Government Budget and grant settlement necessitated a reduction in net expenditure of approximately £5 million in 2011/12. This was achieved through the Council's Business Transformation Programme with minimal impact on front line service delivery. Continued cuts in external funding provide the Council with a considerable challenge to ensure future expenditure plans are sustainable and achieved with minimal impact on front line service delivery.

Acknowledgements
I should like to take this opportunity to thank all Services for their co-operation and assistance through the year and particularly during the preparation of the Financial Statements.

To my own staff I would like to express my appreciation of their dedication and commitment.

Gary Fairley
Head of Finance and Human Resources

28 September 2012

Statement of Responsibilities for the Financial Statements

The Council's Responsibilities

The Council is required:

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

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

In preparing this statement of accounts, the Head of Finance and Human Resources has:

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

The Head of Finance and Human Resources has also:

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

These Financial Statements present a true and fair view of the financial position of the Council at 31 March 2012 and its income and expenditure for the year then ended.

Signed:

Gary Fairley
Head of Finance and Human Resources
28 September 2012

Annual Governance Statement

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

Elected members and senior management are responsible for the governance of the business affairs of Midlothian Council and have therefore developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy and Society of Local Authority Chief Executives' framework.

Each year, the Internal Audit service monitors the level of compliance with the code by requiring Heads of Service (including the statutory posts of Section 95 Officer and Monitoring Officer) to complete a self-assessment against the key elements of this code. Internal Audit also independently test-checks a sample of these, and other elements, as well as using evidence from its own reviews of Council performance undertaken during the year. The conclusions of any external inspections are also used to help inform this annual governance statement.

There is a significant number of governance elements detailed in the Code of Corporate Governance, which include both financial and non-financial elements. These include: independent audit function and audit committee; external audit; community planning structures; corporate aims and objectives; business continuity planning; preparation for new legislation; employee development; financial and operational policies and procedures; risk management; elected member and employee standards in public life; strategic financial management; procurement policies and procedures; counter-fraud policies and whistle blowing; performance management and reporting; standing orders and scheme of administration and feedback and complaints systems.

A revised Code of Corporate Governance is in development, with the above elements included, and will be approved by the new Midlothian Council. This will be used as the basis for assessment next year.
A number of governance improvements were highlighted in the 2010-11 self assessment which have been completed or progressed during 2011-12:

- A new procurement strategy has been developed and a new procurement section recruited to help deliver this strategy. The Council, through introducing a number of new processes and controls, also received a higher rating assessment in its procurement capability assessment, moving from non-conformant to conformant in 2011/12. These improvements have led to savings in 2011/12;

- Improved governance for the Business Transformation programme was introduced in 2011/12 through the establishment of a programme office and joint liaison group; and

- Emergency and business continuity plans have been improved and exercised and there is on-going training provided to officers in compliance with the Civil Contingencies legislation.

While the 2011/12 review cannot provide absolute assurance, it has found generally robust governance.

However, the following areas of improvement have been identified and are to be progressed in 2012/13:

- Work will continue to improve the Council's procurement of goods and services with the aim of fully embedding the new strategy and polices and procedures with further budget savings to be delivered. The Council is also working towards obtaining an "improved performance status" in the 2012/13 procurement capability assessment;

Annual Governance Statement

Following a fine by the Information Commissioner for disclosing sensitive personal data in error the Information Management Groups will continue to promote and develop the Council's systems and process over the security of personal information. This will be achieved through implementation of an action plan following a recent internal audit review and the Council has also invited the Information Commissioner to undertake an audit in 2012/13;

- Work will continue to improve collection rates over accounts receivable debts through a number of recently introduced processes and controls;
- Work on health and safety will be progressed during the year including an update of existing polices and procedures, improved reporting on health and safety indicators as well as the development of a training strategy;
- Guidance made available to management on internal control has been re-drafted and an on-line course developed which will include an assessment to test awareness of internal control;
- Work will continue through the Business Transformation Programme to deliver improved services and processes at reduced cost;
- The Council will continue to assess the impact of the new Welfare Reform Act on Council services and Midlothian citizens and develop local action plans;
- The Council will continue to progress actions to reduce the residual risks within a number of areas of the Council including Community Planning, Following the Public Pound and Business Continuity; and
- Issues arising out of the Best Value 2 report by Audit Scotland will be taken forward through an action plan (including improved use of customer satisfaction information).

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

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

Signed:

Bob Constable, Leader of the Council **Kenneth Lawrie, Chief Executive**

28 September 2012

Movement in Reserves Statement

This statement shows the movement in the year on different reserves held by the Council, analysed into "Usable Reserves" (that is, those that can be applied to fund expenditure) and "Unusable Reserves". The Surplus or deficit on the provision of services line shows the true economic cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Restated 2010/11 – Previous Year Comparative	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Repairs and Renewals Fund £000	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
Opening Balances at 1 April 2010	**(9,196)**	**(10,970)**	**0**	**(1,348)**	**(21,514)**	**(617,369)**	**(638,883)**
Movement in Reserves during 2010/11							
(Surplus) or deficit on provision of services	(29,447)	60,301	0	0	**30,854**	**0**	**30,854**
Other Comprehensive Expenditure and Income	0	0	0	0	**0**	**207,900**	**207,900**
Total Comprehensive Expenditure and Income	**(29,447)**	**60,301**	**0**	**0**	**30,854**	**207,900**	**238,754**
Adjustments between accounting basis and funding basis under regulations (note 4)	**26,059**	**(61,011)**	**(9,955)**	**0**	**(44,907)**	**44,907**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(3,388)**	**(710)**	**(9,955)**	**0**	**(14,053)**	**252,807**	**238,754**
Transfers to / from Other Statutory Reserves	296	0	0	(296)	0	(0)	(0)
Increase / Decrease in 2010/11	**(3,092)**	**(710)**	**(9,955)**	**(296)**	**(14,053)**	**252,807**	**238,754**
Balance at 31 March 2011 carried forward	**(12,288)**	**(11,680)**	**(9,955)**	**(1,644)**	**(35,567)**	**(364,562)**	**(400,129)**

2011/12 – Current Financial Year	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Repairs and Renewals Fund £000	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
Opening Balances at 1 April 2011	**(12,288)**	**(11,680)**	**(9,955)**	**(1,644)**	**(35,567)**	**(364,562)**	**(400,129)**
Movement in Reserves during 2011/12							
(Surplus) or deficit on provision of services	(6,279)	5,864	0	0	**(415)**	**0**	**(415)**
Other Comprehensive Expenditure and Income	0	0	0	0	**0**	**(13,085)**	**(13,085)**
Total Comprehensive Expenditure and Income	**(6,279)**	**5,864**	**0**	**0**	**(415)**	**(13,085)**	**(13,500)**
Adjustments between accounting basis and funding basis under regulations (note 4)	**3,987**	**(5,893)**	**520**	**0**	**(1,386)**	**1,386**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(2,292)**	**(29)**	**520**	**0**	**(1,801)**	**(11,699)**	**(13,500)**
Transfers to / from Other Statutory Reserves	360	0	0	(360)	0	0	0
Increase / Decrease in 2011/12	**(1,932)**	**(29)**	**520**	**(360)**	**(1,801)**	**(11,699)**	**(13,500)**
Balance at 31 March 2012 carried forward	**(14,220)**	**(11,709)**	**(9,435)**	**(2,004)**	**(37,368)**	**(376,261)**	**(413,629)**

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2012

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000	Continuing Operations	Notes	2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
90,937	2,983	87,954	Education Services		82,092	2,939	79,153
55,644	10,866	44,778	Social Work		60,636	12,492	48,144
14,185	3,836	10,349	Culture and Related Services		14,314	5,002	9,312
10,407	246	10,161	Roads and Transport Services		7,094	235	6,859
7,061	315	6,746	Police Services		6,697	292	6,405
9,440	1,543	7,897	Environmental Services		9,582	1,667	7,915
9,420	4,022	5,398	Planning and Development Services		5,817	3,476	2,340
2,432	0	2,432	Fire Services		2,213	0	2,213
74,893	17,930	56,963	Housing Revenue Account		23,778	21,894	1,884
32,215	25,223	6,992	Other Housing Services		36,729	28,963	7,766
4,450	882	3,568	Corporate & Democratic Core		3,929	940	2,989
1,521	985	536	Central Services to the Public		1,083	1,067	16
(33,500)	0	(33,500)	Non-distributable Costs	5	1,655	0	1,655
279,105	**68,831**	**210,274**	**Deficit on Continuing Operations**		**255,619**	**78,968**	**176,651**
		823	Other Operating Expenditure	6			303
		12,670	Financing and Investment Income and Expenditure	7			12,143
		(192,913)	Taxation and Non-Specific Grant Income	8			(189,512)
		30,854	**(Surplus) or Deficit on Provision of Services**				**(415)**
		218,354	(Surplus) or Deficit on revaluation of non current assets				(6,157)
		(9,591)	Actuarial (gains) / losses on pension assets / liabilities	39			(6,072)
		(863)	Other (Gains) / Losses	13			(856)
		207,900	**Other Comprehensive (Income) and Expenditure**				**(13,085)**
		238,754	**Total Comprehensive (Income) and Expenditure**				**(13,500)**

Balance Sheet

As at 31 March 2012

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

Restated 31st March 2011 £000		**Notes**	**31st March 2012 £000**
703,595	Property, Plant and Equipment	9	719,150
444	Intangible Assets	10	436
2,079	Assets held for Sale	11	5,700
30	Heritage Assets	12	30
962	Long Term Investments	14	962
7,081	Long Term Debtors	16	4,703
714,191	**Long Term Assets**		**730,981**
5,047	Short Term Investments	13	25,188
662	Inventories	15	767
9,964	Short Term Debtors	16	18,826
25,714	Cash and Cash Equivalents	17	12,715
41,387	**Current Assets**		**57,496**
63,042	Short Term Borrowing	13	83,997
30,635	Short Term Creditors	18	22,838
4,324	Provisions	19&20	3,043
7,126	Grants Receipts in Advance	33	7,631
105,127	**Current Liabilities**		**117,509**
126,252	Long Term Borrowing	13	143,020
124,070	Other Long Term Liabilities	21	114,319
250,322	**Long Term Liabilities**		**257,339**
400,129	**Net Assets**		**413,629**
35,567	Usable Reserves	4,22	37,368
364,562	Unusable Reserves	4,23	376,261
400,129	**Total Reserves**		**413,629**

Signed:

Gary Fairley
Head of Finance and Human Resources
28 September 2012

Cash Flow Statement for the Year ended 31 March 2012

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.

2010/11 £000	**Revenue Activities**	**Notes**	**2011/12 £000**
(30,854)	**Net surplus or (deficit) on the provision of services**		**415**
83,014	Adjustment to surplus or deficit on the provision of services for non cash movements	24	16,118
(29,797)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	24	(19,688)
22,363	**Net Cash Flows From Operating Activities**		**(3,155)**
(17,098)	Net cash flows from investing activities	25	(45,496)
16,025	Net cash flows from financing activities	26	35,652
21,290	**Net Increase or Decrease in Cash and Cash Equivalents**		**(12,999)**
4,424	Cash and cash equivalents at the beginning of the reporting period		25,714
25,714	**Cash and cash equivalents at the end of the reporting period**		**12,715**

Remuneration Report

The Remuneration Report provides details of the Council's remuneration policy for its senior employees and senior councillors and states how remuneration arrangements are managed. Senior employees within the Council are defined as those having the responsibility for the management of the Council to the extent that they can direct or control the major activities and/or have statutory responsibilities.

As well as providing details of the Council's remuneration policy, the remuneration report also details:

- Remuneration paid to senior employees and senior councillors of the Council for 2011/12;
- The number of employees whose remuneration was £50,000 or more, disclosed in pay bands of £5,000;
- The number and total cost of exit packages, disclosed in pay bands of £20,000;
- The Council's senior employees who participate in the Local Government Pension Scheme, administered by the Lothian Pension Fund, and the benefits provided under the scheme.

Audit of Remuneration Report
All information disclosed in the tables in this report will be audited by Grant Thornton and all other sections of the Remuneration Report will be reviewed to ensure that they are consistent with the Financial Statements.

Employees Remuneration Policy
The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 set the amount of salary for the Chief Executive of Midlothian Council for the period 2008 to 2011, however Chief Executives have forgone the April 2011 increase. For 2011/12 the salaries of the Directors were 87% of the Chief Executive's salary.

The salaries of all other employees are set by reference to:
a) Teaching Staff – The Scottish Negotiating Committee for Teachers (SNCT);
b) Other staff – Scottish Joint Negotiating Committee for Local Authority Services (SJNC).

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

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

The salary that is to be paid to the Leader of the Council is set out in the regulations and for 2011-12 this was £27,058. The regulations permit the Council to remunerate one Civic head, the Provost. The regulations set out the maximum salary that may be paid to the Provost and Council policy is to pay this salary which for 2011-12 was £20,294.

The regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £146,112. The Council is also able to exercise local flexibility in the determination of the precise number of senior councillors and salary within these maximum limits. The Council policy is to divide this sum equally and pay each of the 8 senior councillors a salary of £18,264.

As at 31 March 2012 the Council had appointed 8 senior councillors and the remuneration paid to these councillors in the year totalled £146,042. The regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

In addition to the senior councillors of the Council the regulations also set out the remuneration payable to councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board. The regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener is a member. The Council is also required to pay any pension contributions arising from the Convener or Vice-Convener being a member of the Local Government Pension Scheme. The Council is reimbursed by the Joint Board for any additional remuneration paid to the member from being a Convener or Vice-Convener of a Joint Board.

Pension Entitlement

The Council's senior employees and senior councillors can participate in the Local Government Pension Scheme administered by the Lothian Pension Fund. This is a final salary pension scheme which means that pension benefits are based on the final year's pay and the number of years that a person has been a member of the scheme. The scheme's normal retirement age for employees is 65.

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

The tiers and employees contributions rates for 2011-12 remain at the 2010-11 rates, and are as follows:

On earnings up to and including £18,000 (5.5%), on earnings above £18,000 and up to £22,000 (7.25%), on earnings above £22,000 and up to £30,000 (8.5%), on earnings above £30,000 and up to £40,000 (9.5%) and on earnings above £40,000 (12%).

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

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

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

Remuneration Report

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

Number of Employees 2010/11	Remuneration Band	Number of Employees 2011/12
43	£50,000 - £54,999	43
12	£55,000 - £59,999	13
1	£60,000 - £64,999	2
7	£65,000 - £69,999	8
4	£70,000 - £74,999	3
2	£75,000 - £79,999	2
1	£80,000 - £84,999	1
0	£85,000 - £89,999	0
0	£90,000 - £94,999	1
3	£95,000 - £99,999	1
0	£100,000 - £104,999	0
0	£105,000 - £109,999	0
1	£110,000 - £114,999	1
74	**TOTAL**	**75**

Exit Packages by Band
Details of the cost to the Council employee's voluntary redundancy packages for the year are as follows:

Number of Employees 2010/11	Total Cost £000 2010/11	Package Band	Number of Employees 2011/12	Total Cost £000 2011/12
88	795	£0 - £19,999	44	451
21	633	£20,000 - £39,999	17	479
4	206	£40,000 - £59,999	6	279
7	481	£60,000 - £79,999	4	295
4	491	£80,000 +	5	446
124	**2,606**	**TOTAL**	**76**	**1,950**

Remuneration Report

Remuneration paid to Senior Employees

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

31 March 2011 Total Remuneration	Name and Post Title	31 March 2012 Salary, Fees & Allowances	Non Cash Benefits	Compensation for loss of employment	Total Remuneration
£109,198	K Lawrie, Chief Executive	£109,027	-	-	£109,027
£2,948	K Lawrie, Returning Officer	£4,993	-	-	£4,993
£99,005	D MacKay, Director Education & Children Services (1)	£83,437	£7,983	£15,995	£107,415
£95,573	C Anderson, Director Communities & Wellbeing (2)	£59,739	£4,551	-	£64,290
-	C Anderson , Executive Officer Transformation (3)	£9,232	-	-	£9,232
£95,259	J Blair, Director Corporate Resources	£91,022	£4,899	-	£95,921
-	E McHugh, Acting Director Communities & Wellbeing (4)	£15,832	-	-	£15,832
£51,372	G Fairley, Head of Finance & Human Resources	£64,300	£4,180	-	£68,480
£53,533	H Kelly, Head of Customer Services	£71,201	-	-	£71,201
-	D Ledingham, Director Education and Children Services (5)	£3,922	-	-	£3,922
£506,888	**Total**	**£512,705**	**£21,613**	**£15,995**	**£550,313**

Pension Entitlement of Senior Employees

For year to 31 March 2011	In-year employers pension contributions Name and Post Title	For year to 31 March 2012
£21,286	K Lawrie, Chief Executive	£21,835
£598	K Lawrie, Returning Officer	£1,044
£18,477	D MacKay, Director Education & Children Services	£17,438
£18,477	C Anderson, Director Communities & Wellbeing	£6,105
-	C Anderson, Executive Officer Transformation	£1,035
£18,477	J Blair, Director Corporate Resources	£19,024
-	E McHugh, Acting Director Communities & Wellbeing	£2,654
£13,053	G Fairley, Head of Finance & Human Resources	£13,439
£13,850	H Kelly, Head of Customer Services	£14,259
£104,218	**Total**	**£96,833**

1 Retired 29 February 2012, Full year equivalent salary £91,022.
2 Left post 31 January 2012, Full year equivalent salary £91,022.
3 Start date 1 February 2012, Full year equivalent salary £91,022.
4 Start date 1 February 2012, Full year equivalent salary £91,022.
5 Service level agreement in place between Midlothian Council and East Lothian Council where Don Ledingham will provide the services of Director of Education and Children Services for the period 1 March 2012 to 31 December 2012, with Midlothian Council Paying 50% of his salary. Details on Don Ledinghams pension entitlement and accrued pension benefits can be seen in East Lothian Councils statement of accounts.

Remuneration Report

Accrued Pension Benefits

Name and Post Title	Pension as at 31 March 2012 £000	Lump Sum as at 31 March 2012 £000	Difference from 31 March 2011 Pension £000	Lump Sum £000
K Lawrie, Chief Executive	24	57	2	0
D MacKay, Director Education & Children Services	47	127	1	0
C Anderson, Director Communities & Wellbeing	49	135	1	0
J Blair, Director Corporate Resources	34	87	2	0
E McHugh, Acting Director Communities & Wellbeing	24	63	3	4
G Fairley, Head of Finance & Human Resources	24	62	1	0
H Kelly, Head of Customer Services	14	32	1	-
Total	**216**	**563**	**11**	**4**

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

Remuneration of Senior Councillors and Vice-Convener of Lothian Joint Valuation Board

The following table provides details of the remuneration paid to senior councillors of Midlothian Council and the vice-convener of Lothian Joint Valuation Board.

31 March 2011 Total Remuneration	Name	31 March 2012 Salary	Expenses	Total Remuneration
£27,596	D Milligan, Council Leader	£27,058	£540	£27,598
£23,337	A Montgomery, Provost	£20,294	£4,710	£25,004
£18,357	M Russell, Senior Councillor	£18,264	£54	£18,318
£19,307	P Boyes, Senior Councillor	£18,264	£267	£18,531
£18,664	A Bennett, Senior Councillor	£18,264	£271	£18,535
£18,367	J Aitchison, Senior Councillor	£18,264	£130	£18,394
£17,195	J Muirhead, Senior Councillor	£18,194	£81	£18,275
£19,087	R Imrie, Senior Councillor	£18,264	£288	£18,552
£18,606	W Chalmers, Senior Councillor	£18,264	£245	£18,509
£19,086	O Thompson, Senior Councillor	£18,264	£189	£18,453
£19,068	L Beattie, Councillor and Vice-Convener Lothian Joint Valuation Board	£19,279	£253	£19,532
£218,670	**Total**	**£212,673**	**£7,028**	**£219,701**

The Council paid £0.309 million (2010/11 £0.324 million) salaries to Councillors and expenses of £0.010 million (2010/11 £0.011 million). The annual return of Councillor’s salaries and expenses is available on the Council Website.

Remuneration Report

Pension Entitlement of Senior Councillors

	In-year employers pension contributions	
For year to 31 March 2011	**Name**	**For year to 31 March 2012**
£4,120	A Montgomery, Provost	£4,241
£3,708	P Boyes, Senior Councillor	£3,817
£3,708	A Bennett, Senior Councillor	£3,817
£3,708	J Aitchison, Senior Councillor	£3,817
£3,708	R Imrie, Senior Councillor	£3,817
£3,708	W Chalmers, Senior Councillor	£3,817
£3,914	L Beattie, Councillor and Vice-Convener LJVB	£4,029
£26,574	**Total**	**£27,355**

Accrued Pension Benefits as at 31 March 2012

Name and Post Title	Pension as at 31 March 2012	Lump Sum as at 31 March 2012	Difference from 31 March 2011 Pension	Lump Sum
	£000	**£000**	**£000**	**£000**
A Montgomery, Provost	2	1	1	-
P Boyes, Senior Councillor	1	1	-	-
A Bennett, Senior Councillor	3	5	2	-
J Aitchison, Senior Councillor	1	1	-	-
R Imrie, Senior Councillor	1	1	1	-
W Chalmers, Senior Councillor	1	1	-	-
L Beattie, Councillor and Vice-Convener LJVB	2	1		
Total	**11**	**11**	**4**	**-**

Signed:

Bob Constable, Leader of the Council

Kenneth Lawrie, Chief Executive

28 September 2012

Notes to the Financial Statements

1. Statement of Accounting Policies

1.1 Introduction

The accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice in the United Kingdom (the Code) and the Best Value Accounting Code of Practice (BVACOP). Exceptions to this are stated in the Accounting Policies and notes to the Financial Statements.

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

1.2 Summary of Significant Accounting Policies

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

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council;
- Revenue from the provision of services is recognised when the council can reliably measure the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or a creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.2.2 Cash and Cash Equivalents
Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

Notes to the Financial Statements

1.2.3 Exceptional Items

When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement (CIES) or in the notes to the Financial Statements, depending on how significant the items are to an understanding of the Council's financial performance.

1.2.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

1.2.5 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

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

1.2.6 Employee Benefits

Benefits Payable during Employment

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

Notes to the Financial Statements

Termination Benefits.

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

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

Post Employment Benefits

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

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

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

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

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

Notes to the Financial Statements

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Lothian Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices;
- The assets of Lothian Pension Fund attributable to the Council are included in the Balance Sheet at their fair value. Quoted securities at current bid price, unquoted securities at professional estimate, unitised securities at current bid price and property at market value.

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

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked;
- past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the CIES;
- expected return on assets – the annual investment return on the fund assets attributable to the council, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the CIES;
- gains or losses on settlements and curtailments – the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve;
- contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

Notes to the Financial Statements

1.2.7 Events After the Balance Sheet Date

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

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

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

1.2.8 Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Where premiums and discounts have been charged to the CIES, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the CIES to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

Financial Assets

Financial assets are classified into two types:

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

Notes to the Financial Statements

Loans and Receivables

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

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

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

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

Available for Sale Assets

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

Assets are maintained in the Balance Sheet at fair value. Values are based on the latest indicative price achievable for the assets as a proxy for quoted market prices.

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

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

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

Notes to the Financial Statements

1.2.9 Foreign Currency Translation

Where the council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March 2012. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the CIES.

1.2.10 Government Grants and Contributions

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

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

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

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

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

1.2.11 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

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

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

Notes to the Financial Statements

1.2.12 Interests in Companies and Other Entities

The council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses

1.2.13 Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at latest invoice price. This does not comply with the Code which requires such items to be shown at the lower of cost and net realisable value. The difference is not considered to be material.

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

1.2.14 Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

As at 31st March 2012 the Council has no properties that are classed as Investment Properties.

1.2.15 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets.

The council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the CIES as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg, there is a rent-free period at the commencement of the lease).

<u>1.2.16 Overheads and Support Services</u>

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

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

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

<u>1.2.17 Property, Plant and Equipment</u>

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

Recognition

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

Notes to the Financial Statements

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

- Council Houses are valued using the Beacon principle based on valuations carried out by the District Valuer and the Council's Principal Estates Surveyor. The main valuation basis used in is existing use – social housing. Gross valuations are reduced by applying a discount factor which is designed to reflect that houses are only available for social use. Any new build housing and newly purchased houses are valued at historic cost;
- Land, operational and non-operational properties have been valued at the lower of cost and 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 at depreciated historic cost.
- Assets Under Construction are held at historic cost.
- Surplus Assets are valued at open market value.
- Heritage Assets are valued at insurance replacement value where available, otherwise assets are held at depreciated historic cost since the cost of obtaining a valuation would outweigh the benefits to users of the financial statements.

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

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

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

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

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

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

Impairment

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

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

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

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

Depreciation

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

Deprecation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer;
- vehicles, plant and equipment – straight-line allocation over the useful life of the assets in the Balance Sheet, as advised by a suitably qualified officer;
- infrastructure – straight-line allocation.

The following useful lives are used in the calculation of depreciation for the categories of assets:

- Council Dwellings – 40 to 60 years
- Buildings – 10 to 30 years
- Vehicles, Plant and Equipment – 5 to 10 years
- Infrastructure – 15 years

Notes to the Financial Statements

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Council policy is to only consider any asset with a gross book value of £1.5 million or above. The assessment of which components of these assets require to be recognised and depreciated separately is based on the cost of each component. Significance is determined by comparing the cost of components against the overall cost of the asset. This threshold is set at 15% or more of the overall cost of the asset.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Fund via the Capital Receipts Reserve, and can then only be used for new capital investment or to defray debt. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

<u>1.2.18 Private Finance Initiative and similar contracts</u>

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

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

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

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

- fair value of the services received during the year – debited to the relevant service in the CIES;
- finance cost – an interest charge of 10.19% on the outstanding Balance Sheet liability for Dalkeith Schools PPP and 7.37% for Midlothian Primary Schools, debited to the Financing and Investment Income and Expenditure line in the CIES;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

1.2.19 Provisions and Contingent Liabilities

Provisions

Provisions are made where an event has taken place that gives the council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

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

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Notes to the Financial Statements

1.2.20 Reserves

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

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

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

1.2.21 VAT

Income and Expenditure excludes any amount relating to Value Added Tax (VAT), as all VAT is payable to H.M. Revenue & Customs and all VAT is recoverable from them.

2. Critical Judgements in Applying Accounting Policies

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

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

3. Assumptions Made about the Future and Other major Sources of Estimation Uncertainty.

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

The items in the Authorities Balance Sheet as at 31 March 2012 for which there is significant risk of material adjustment in the forthcoming year are as follows:

3.1 Property, Plant and Equipment

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

Notes to the Financial Statements

Effect if actual results differ from assumptions
If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge would increase by £7.398 million for every year that useful lives had to be reduced.

3.2 Pension Liabilities

Uncertainties
Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which earnings are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Hymans Robertson LLP are engaged to provide the Council with expert advice about the assumptions to be applied.

Effect if actual results differ from assumptions
During 2011/12 the actuary advised that the Balance Sheet position has improved since last year. This was principally due to the financial assumptions at 31 March 2012 being more favourable than they were at 31 March 2011.

The following table shows the sensitivity of the results to the changes in assumptions used to measure the scheme liabilities. Approximate percentage changes and monetary values are shown below:

Sensitivities at 31 March 2012	Approximate % increase to Employer Obligation	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	9%	29,066
1 year increase in member life expectancy	3%	9,513
0.5% increase in the Salary Increase Rate	2%	7,689
0.5% increase in the Pension Increase Rate	7%	21,187

Notes to the Financial Statements

4. Adjustments between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total Comprehensive Income and Expenditure Statement recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure.

Usable Reserves **2010/11 Comparative Figures**	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Usable Capital Receipts Reserve £000	Repairs And Renewals Fund £000	**Total Useable Reserves £000**
Reversal of items debited or credited to the CIES						
Charges for Depreciation and impairment of non-current assets	(21,781)	(62,953)	0	0	0	**(84,734)**
Net gain or loss on sale of non-current assets	(823)	0	0	0	0	**(823)**
Amortisation of Intangible Assets	(125)	0	0	0	0	**(125)**
Insertion of items not debited or credited to the CIES						
Loan / Lease repayments	7,125	1,269	0	0	0	**8,394**
Net Revenue Expenditure Funded from Capital	177	0	0	0	0	**177**
Equal Pay Capitalisation	(1,112)	0	0	0	0	**(1,112)**
Adjustments primarily involving the Capital Grant Unapplied Account						
Application of Grants to Capital Financing transferred to the CAA	6,565	673	0	0	0	**7,238**
Adjustments primarily involving the Capital Fund						
Disposal of Fixed Assets / Capital Sales	0	0	0	(12,507)	0	**(12,507)**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	(120)	0	(9,955)	10,075	0	**0**
Capital Receipts used to Finance Capital Expenditure	0	0	0	2,432	0	**2,432**
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	(650)	0	0	0	0	**(650)**
Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the CIES	23,717	0	0	0	0	**23,717**
Employers Pension contributions and direct payments to pensioners payable in the year	12,148	0	0	0	0	**12,148**
Adjustments primarily involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	938	0	0	0	0	**938**
Total Adjustments	**26,059**	**(61,011)**	**(9,955)**	**0**	**0**	**(44,907)**

Notes to the Financial Statements

Unusable Reserves 2010/11 Comparative Figures	Capital Adjustment Account £000	Revaluation Reserve £000	Accumulated Absences Account £000	Financial Instruments Adjustment Account £000	Available For Sale Financial Instruments Account £000	Pensions Reserve £000	**Total Unusable Reserves £000**
Reversal of items debited or credited to the CIES							
Charges for Depreciation and impairment of non-current assets	84,734	0	0	0	0	0	**84,734**
Net gain or loss on sale of non-current assets	823	0	0	0	0	0	**823**
Amortisation of Intangible Assets	125	0	0	0	0	0	**125**
Insertion of items not debited or credited to the CIES							
Loan / Lease repayments	(8,394)	0	0	0	0	0	**(8,394)**
Net revenue Expenditure Funded from Capital	(177)	0	0	0	0	0	**(177)**
Equal Pay Capitalisation	1,112	0	0	0	0	0	**1,112**
Adjustments primarily involving the Capital Grant Unapplied Account							
Application of Grants to Capital Financing transferred to the CAA	(7,238)	0	0	0	0	0	**(7,238)**
Adjustments primarily involving the Capital Fund							
Disposal of Fixed Assets / Capital Sales	12,507	0	0	0	0	0	**12,507**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	0	0	0	0	**0**
Capital Receipts used to Finance Capital Expenditure	(2,432)	0	0	0	0	0	**(2,432)**
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	0	0	0	650	0	0	**650**
Adjustments primarily involving the pensions reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	0	0	0	(23,717)	**(23,717)**
Employers Pension contributions and direct payments to pensioners payable in the year	0	0	0	0	0	(12,148)	**(12,148)**
Adjustments primarily involving the Employee Statutory Adjustment Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(938)	0	0	0	**(938)**
Total Adjustments	**81,060**	**0**	**(938)**	**650**	**0**	**(35,865)**	**44,907**

Notes to the Financial Statements

Usable Reserves 2011/12	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Usable Capital Receipts Reserve £000	Repairs And Renewals Fund £000	**Total Useable Reserves £000**
Reversal of items debited or credited to the CIES						
Charges for Depreciation and impairment of non-current assets	(19,004)	(11,091)	0	0	0	**(30,095)**
Net gain or loss on sale of non-current assets	(303)	0	0	0	0	**(303)**
Amortisation of Intangible Assets	(176)	0	0	0	0	**(176)**
Insertion of items not debited or credited to the CIES						
Loan / Lease repayments	6,225	1,711	0	0	0	**7,936**
Net Revenue Expenditure Funded from Capital	608	0	0	0	0	**608**
Equal Pay Capitalisation	(1,000)	0	0	0	0	**(1,000)**
Adjustments primarily involving the Capital Grant Unapplied Account						
Application of Grants to Capital Financing transferred to the CAA	14,414	3,487	0	0	0	**17,901**
Adjustments primarily involving the Capital Fund						
Disposal of Fixed Assets / Capital Sales	0	0	0	(1,794)	0	**(1,794)**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	(40)	0	0	40	0	**0**
Capital Receipts used to Finance Capital Expenditure	0	0	520	1754	0	**2,274**
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	(643)	0	0	0	0	**(643)**
Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the CIES	(8,443)	0	0	0	0	**(8,443)**
Employers Pension contributions and direct payments to pensioners payable in the year	11,161	0	0	0	0	**11,161**
Adjustments primarily involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,188	0	0	0	0	**1,188**
Total Adjustments	**3,987**	**(5,893)**	**520**	**0**	**0**	**(1,386)**

Notes to the Financial Statements

Unusable Reserves 2011/12	Capital Adjustment Account £000	Revaluation Reserve £000	Accumulated Absences Account £000	Financial Instruments Adjustment Account £000	Available For Sale Financial Instruments Account £000	Pensions Reserve £000	**Total Unusable Reserves £000**
Reversal of items debited or credited to the CIES							
Charges for Depreciation and impairment of non-current assets	30,095	0	0	0	0	0	**30,095**
Net gain or loss on sale of non-current assets	303	0	0	0	0	0	**303**
Amortisation of Intangible Assets	176	0	0	0	0	0	**176**
Insertion of items not debited or credited to the CIES							
Loan / Lease repayments	(7,936)	0	0	0	0	0	**(7,936)**
Net revenue Expenditure Funded from Capital	(608)	0	0	0	0	0	**(608)**
Equal Pay Capitalisation	1,000	0	0	0	0	0	**1,000**
Adjustments primarily involving the Capital Grant Unapplied Account							
Application of Grants to Capital Financing transferred to the CAA	(17,901)	0	0	0	0	0	**(17,901)**
Adjustments primarily involving the Capital Fund							
Disposal of Fixed Assets / Capital Sales	1,794	0	0	0	0	0	**1,794**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	0	0	0	0	**0**
Capital Receipts used to Finance Capital Expenditure	(2,274)	0	0	0	0	0	**(2,274)**
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	0	0	0	643	0	0	**643**
Adjustments primarily involving the pensions reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	0	0	0	8,443	**8,443**
Employers Pension contributions and direct payments to pensioners payable in the year	0	0	0	0	0	(11,161)	**(11,161)**
Adjustments primarily involving the Employee Statutory Adjustment Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(1,188)	0	0	0	**(1,188)**
Total Adjustments	**4,649**	**0**	**(1,188)**	**643**	**0**	**(2,718)**	**1,386**

Notes to the Financial Statements

5. Non-Distributable Costs

2010/11 £000		2011/12 £000
(34,409)	Write-back of pension costs due to change from RPI to CPI	0
909	Other Pension Costs	1,655
(33,500)	**Total Non-distributable Costs**	**1,655**

6. Other Operating Income and Expenditure

2010/11 £000		2011/12 £000
823	(Surplus)/Deficit on sale of non current assets	303
823	**Total Other Operating Income and Expenditure**	**303**

7. Financing and Investment Income and Expenditure

2010/11 £000		2011/12 £000
13,300	Interest payable and similar charges	13,816
269	Pension interest cost and expected returns on pension assets	(448)
(829)	Interest received and similar income	(1,200)
0	Investment Losses	38
(70)	(Surplus)/deficit on trading operations	(62)
12,670	**Total**	**12,144**

8. Taxation and Specific Grant Income

2010/11 £000		2011/12 £000
37,123	Council Tax Income	37,549
32,172	Non Domestic Rates Income	23,188
123,618	Non-Specific Government Grants	128,775
192,913	**Total Taxation and Non-Specific Grant Income**	**189,512**

Notes to the Financial Statements

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

	Houses £000	Land £000	Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Under Construction £000	Surplus Assets £000	Total £000
Gross Book value as at 31 March 2011	**345,325**	**29,974**	**307,910**	**17,831**	**37,979**	**2,878**	**38,814**	**5,637**	**786,348**
Adjustment to opening balance		19,354	(19,372)		18				-
Restated Gross Book value as at 31 March 2011	**345,325**	**49,328**	**288,538**	**17,831**	**37,997**	**2,878**	**38,814**	**5,637**	**786,348**
Additions	10,271	11	1,090	2,451	7,522	0	23,459	408	45,212
Disposals	(1,637)	0	0	(886)	0	0	(388)	0	(2,911)
Revaluations and Restatements	9	881	(1,439)	20	0	137	164	3,676	3,448
Impairments	0	0	0	0	0	0	0	0	(0)
Reclassifications	22,605	(4,193)	(614)	0	0	0	(21,991)	0	(4,193)
Gross Book value at 31 March 2012	**376,573**	**46,027**	**287,575**	**19,416**	**45,519**	**3,015**	**40,058**	**9,721**	**827,904**
Restated Depreciation as at 31 March 2011	**(11,394)**	**(48)**	**(42,573)**	**(12,204)**	**(16,447)**	**(53)**	**0**	**(34)**	**(82,753)**
Depreciation for the year	(11,133)	0	(14,516)	(1,901)	(2,486)	(51)	0	0	(30,087)
Write back depreciation on upward revaluations	0	29	2,866	0	0	6	0	0	2,901
Write back depreciation on impairments	0	0	0	0	0	0	0	0	0
Write back depreciation on disposals	240	0	0	862	0	0	112	0	1,214
Reclassifications	4	(29)	(112)	0	0	0	108	0	(29)
Depreciation as at 31 March 2012	**(22,283)**	**(48)**	**(54,335)**	**(13,243)**	**(18,933)**	**(98)**	**220**	**(34)**	**(108,754)**
Net book value as at 31 March 2011	**333,931**	**49,280**	**245,965**	**5,627**	**21,550**	**2,825**	**38,814**	**5,603**	**703,595**
Net book value as at 31 March 2012	**354,290**	**45,979**	**233,240**	**6,173**	**26,586**	**2,917**	**40,278**	**9,687**	**719,150**

Notes to the Financial Statements

	Houses £000	Land £000	Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Under Construction £000	Surplus Assets £000	Total £000
Gross Book value as at 31 March 2010	**631,498**	**32,194**	**307,352**	**16,726**	**34,309**	**899**	**20,292**	**11,859**	**1,055,129**
Additions	9,377	0	1,240	1,564	3,670	0	17,813	64	33,728
Disposals	(4,758)	(3)	(34)	(461)	0	0	(10)	(1)	(5,267)
Revaluations and Restatements	(290,792)	116	(292)	2	0	1,979	0	3,046	(285,941)
Impairments	0	(1,089)	(280)	0	0	0	0	0	(1,369)
Reclassifications	0	(1,244)	(76)	0	0	0	719	(9,331)	(9,932)
Gross Book value at 31 March 2011	**345,325**	**29,974**	**307,910**	**17,831**	**37,979**	**2,878**	**38,814**	**5,637**	**786,348**
Depreciation as at 31 March 2010	**(10,369)**	**(296)**	**(31,946)**	**(10,513)**	**(14,223)**	**(10)**	**0**	**(34)**	**(67,391)**
Depreciation for the year	(13,454)	(41)	(14,419)	(2,189)	(2,224)	(49)	0	0	(32,376)
Write back depreciation on upward revaluations	12,429	289	3,781	93	0	6	0	0	16,598
Write back depreciation on impairments	0	0	0	0	0	0	0	0	0
Write back depreciation on disposals	0	0	11	405	0	0	0	0	416
Reclassifications	0	0	0	0	0	0	0	0	0
Depreciation as at 31 March 2011	**(11,394)**	**(48)**	**(42,573)**	**(12,204)**	**(16,447)**	**(53)**	**0**	**(34)**	**(82,753)**
Net book value as at 31 March 2010	**621,129**	**31,898**	**275,406**	**6,213**	**20,086**	**889**	**20,292**	**11,825**	**987,738**
Net book value as at 31 March 2011	**333,931**	**29,926**	**265,337**	**5,627**	**21,532**	**2,825**	**38,814**	**5,603**	**703,595**

Revaluations

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

Land, operational and non-operational properties have been valued on the basis of net realisable value in existing use or at net current replacement cost. Community and infrastructure assets are valued at depreciated historic cost. Vehicles, plant and equipment have been valued at depreciated historic cost.

Notes to the Financial Statements

10. Intangible Assets

Software licences are held for a number of systems operated by the Council which cost £0.814 million (2010/11 £0.646 million). This cost is being written off over 3 or 5 years depending on the life of the licence. A total of £0.378 million has been written off (2010/11 £0.202 million).

2010/11		**2011/12**
£000		**£000**
494	**Gross carrying amount at start of year**	**646**
(77)	Accumulated amortisation	(202)
417	**Net carrying amount at the start of year**	**444**
152	Additions – purchased	168
(125)	Amortisation	(176)
444	**Net Book Value at Year End**	**436**

11. Movement in Assets Held for Sale

2010/11		**2011/12**
£000		**£000**
636	**Balance Outstanding as at 1 April**	**2,079**
42	Additions	0
9,932	Transfers from Non Current Assets during the year	4,500
0	Revaluations and Restatements	(201)
0	Impairments	0
0	Assets declassified as held for sale	(277)
(8,531)	Assets sold at cost	(401)
2,079	**Balance Outstanding as at 31 March**	**5,700**

12. Heritage Assets

2010/11		**2011/12**
£000		**£000**
30	**Restated cost or valuation at start of year**	**30**
0	Additions	0
0	Revaluation gains (losses) taken to surplus or defecit on the provision of service	0
0	Revaluation gains (losses) other	0
0	Impairment losses	0
0	Assets sold cost	0
30	**Cost or valuation at year-end**	**30**

The Council's chain of office is the main heritage asset and has been included at reinstatement cost, obtained from the Council's insurer.

Notes to the Financial Statements

13. Financial Instruments

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

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

Financial Instrument Balances

Restated Long Term 31.3.11 £000	**Restated Current 31.3.11 £000**		**Long Term 31.3.12 £000**	**Current 31.3.12 £000**
		Borrowings		
126,252	63,042	Financial Liabilities at amortised cost	143,020	83,997
0	30,635	Creditors	0	22,838
		Investments		
0	5,047	Loans and Receivables	0	25,188
962	0	Available-for-sale Financial Assets	962	0
0	25,714	Cash and Cash Equivalents	0	12,715
7,081	9,964	Debtors	4,703	18,826

Lender Option Borrower Options (LOBO's) of £15m have been included in current borrowing as the lender has the right to require repayment at the next call date of the loan, which falls within the next 12 months.

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

Gains and Losses on Financial Instruments
There were gains of £0.856 million on financial instrument adjustment account (2010/11 £0.863 million) which were recognised in the Comprehensive Income and Expenditure Statement for 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.

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

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

The rates quoted in this valuation were obtained by Sector, the Council's treasury management consultants, from the market on 31st March 2012.

Notes to the Financial Statements

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 128/12 issued by PWLB on 31st March 2012;
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender;
- Interpolation techniques have been used between available rates where the exact maturity period was not available;
- No early repayment or impairment is recognised;
- Fair values have been calculated for all instruments in the portfolio, but only those which are materially different from the carrying value are disclosed;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Fair values of liabilities are calculated as:

31 March 2011			**31 March 2012**				
Carrying Amount	**Fair Value**	**Liability**	**Principal Outstanding**	**Add LOBO Accounting Adjustment**	**Add Accrued Interest**	**Carrying Amount**	**Fair Value**
£000	**£000**		**£000**	**£000**	**£000**	**£000**	**£000**
142,335	135,510	PWLB	148,043	-	1,285	149,328	155,987
20,922	23,905	LOBO	20,000	643	274	20,917	21,787
14	15	European Investment Bank	8	-	0	8	9
26,023	26,001	Short Term Borrowing	56,750	-	14	56,764	56,693
189,294	**185,431**	**Total**	**224,801**	**643**	**1,573**	**227,017**	**234,476**

Short Term borrowing as shown in the Balance Sheet of £88.997 million comprises accrued interest of £1.573 million, the LOBO transition/amortisation adjustment of £0.643 million and principal to be repaid within 12 months of £86.781 million.

Fair values of assets are calculated as:

31 March 2011			**31 March 2012**			
Carrying Amount	**Fair Value**	**Investments**	**Principal Advanced**	**Add Accrued Interest**	**Carrying Amount**	**Fair Value**
£000	**£000**		**£000**	**£000**	**£000**	**£000**
25,714	25,714	Cash and Cash Equivalents	12,706	9	12,715	12,770
5,047	5,069	Deposits with Banks and Building Societies	24,900	288	25,188	25,466
30,761	**30,783**	**Total**	**37,606**	**297**	**37,903**	**38,236**

Notes to the Financial Statements

<u>Nature and extent of risks arising from Financial Instruments</u>
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.

<u>Credit Risk</u>
Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council also has a policy of limiting deposits with government backed institutions to a maximum of £30 million and a limit on the maximum size of one transaction in placing a deposit of £15 million.

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

	Amounts at 31 March 2012 £000	**Historical experience of default %**	**Historical experience adjusted for market conditions as at 31 March 2011 %**	**Estimated maximum exposure to default and non collectable amounts £000**
Deposits with banks and other financial institutions	42,995	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.

<u>Age Analysis</u>

31 March 2011 £000		**31 March 2012 £000**
25,782	Less than 3 months	17,807
0	3 to 6 months	8,230
5,047	6 months to 1 year	16,958
0	More than 1 year	0
30,829	**Total**	**42,995**

<u>Liquidity Risk</u>
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.

<u>Market Risk</u>
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.

Notes to the Financial Statements

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

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

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

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 2012, 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	387
Increase in interest receivable on variable rate instruments	-418
Increase in government grant receivable for financing costs	0
Impact on CIES	**-31**
Share of overall impact credited to the HRA	**17**
Decrease in fair value of "available for sale" investment assets	25
Other Comprehensive Income and Expenditure	**25**

The impact of a 1% fall in interest rates has not been calculated due to base rate currently sitting at 0.5% and £12.6 million of the council's short-term investments receiving interest of less than 1%.

Price Risk

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

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

Notes to the Financial Statements

14. Long Term Investments

Midlothian Council holds a 5.5% shareholding in Lothian Buses plc, a company incorporated in January 1986 under the terms of the Transport Act 1985 to operate buses in the City of Edinburgh and its surrounding area.

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

The most recent results of the company are as follows:

Restated Year to 31 December 2010 £000		Year to 31 December 2011 £000
112,642	Turnover	117,092
30,283	Profit before taxation	9,792
(3,760)	Taxation	(909)
26,523	Profit after taxation	8,883
2,197	Ordinary dividend	3,296
36,817	Transfer to / (from) reserves	17,909
51,577	**Net assets at end of year**	**69,346**

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

15. Inventories

In carrying out its work the Council holds reserves of stock. The value of inventories at the year end 2011/12 was £0.767 million (2010/11 £0.662 million).

16. Debtors

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

Short Term Debtors

Restated 2010/11 £000	**Restated 2010/11 £000**		**2011/12 £000**	**2011/12 £000**
25,529		Council Tax and Community Charge	25,647	
(22,589)		Less: bad debt provision	(23,269)	
	2,940			2,378
	548	Central Government Bodies		3,553
	104	Other Local Authorities		277
	493	Public Corporations and Trading Funds		(22)
7,547		Grants, External Debtor accounts and other Income due	14,666	
(1,668)		Less: bad debt provision	(2,026)	
	5,879			12,640
	9,964	**Net Debtors**		**18,826**

Notes to the Financial Statements

Long Term Debtors

2010/11 £000		2011/12 £000
1,644	Prepayment to PPP Contractor	2,004
5,400	Capital Receipt – Kippielaw Site	2,699
37	Other	0
7,081	**Total Long Term Debtors**	**4,703**

17. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in bank and short term deposits and investments (considered to be cash equivalents), net of outstanding bank overdrafts.

Cash and cash equivalents at the end of the reporting period as shown in the statement of cash flows can be reconciled to the related items in the Balance Sheet as follows:

2010/11 £000		2011/12 £000
55	Cash and Bank Balances	56
25,727	Short Term Deposits Considered to be Cash Equivalents	17,751
(68)	Bank Overdraft	(5,093)
25,714	**Total Cash and Cash Equivalents**	**12,715**

18. Creditors

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

2010/11 £000		2011/12 £000
4,934	Payroll Costs Due	5,718
6,177	Accumulated Absences	4,989
588	Central Government Bodies	307
1,168	Other Local Authorities	431
451	Public Corporations and Trading Funds	135
859	NDR/Council Tax	(16)
16,458	Other Entities and Individuals	11,274
30,635	**Total Creditors**	**22,838**

19. Equal Pay Claims and Provision

Included in the Net Cost of Services is a decrease in expenditure of £0.410 million (2010/11 increase of £0.226 million) in respect of providing for settlement of Equal Pay claims under the Equal Pay Act 1970. At 31 March 2012 £9.807 million of claims have been settled and an estimate of £2.214 million for outstanding claims has been provided for in other provisions.

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

The consent was subsequently extended to 2011/12, during which the expenditure on settling claims was £1.116 million (2010/11 £1.112 million), of which £1 million was capitalised.

Notes to the Financial Statements

20. Other Provisions

Insurance

A provision for potential uninsured losses arising from claims is also made and this amounted to £0.644 million at 31 March 2012 and £0.576 at 31 March 2011 and is shown in other provisions.

Voluntary Severance

The Council has in place a voluntary severance scheme. In 2011/12 a provision of £0.185 million has been made for employees who have agreed a departure date as at 31 March 2012.

21. Other Long Term LiabilitiesLiabilities

2010/11 £000		2011/12 £000
63,802	Net Pension Liabilities	55,012
65	Finance Lease Liability	0
60,203	PPP Liabilities	59,307
124,070	**Total Long Term Liabilities**	**114,319**

22. Usable Reserves

Movement in the Council's usable reserves are detailed in the Movement in Reserves Statement and in note 4.

31st March 2011 £000		31st March 2012 £000
(12,288)	General Fund Reserve	(14,220)
(11,680)	HRA Balance	(11,709)
(9,955)	Capital Fund	(9,435)
(1,644)	Repairs and Renewals Fund	(2,004)
(35,567)	**Total Usable Reserves**	**(37,368)**

23. Unusable Reserves

Restated 31st March 2011 £000			31st March 2012 £000
(360,881)	22.1	Capital Adjustment Account	(360,607)
(76,770)	22.2	Revaluation Reserve	(78,552)
63,802	22.3	Pension Reserve	55,012
6,177	22.4	Employee Statutory Adjustment Account	4,989
3,722	22.5	Financial Instruments Adjustment Account	3,509
(611)	22.6	Available for Sale Financial Instruments Reserve	(612)
(364,562)		**Total Unusable Reserves**	**(376,261)**

Notes to the Financial Statements

23.1 Capital Adjustment Account

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

Note 4 provides further details of transactions posted to the Account.

Restated 2010/11 £000		**2011/12 £000**
(432,548)	**Balance at 1st April**	**(360,881)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
32,376	- Charges for Depreciation and impairment of non-current assets	30,095
52,335	- Revaluation losses on Property, Plant and Equipment	418
125	- Amortisation of intangible assets	176
13,380	- Amounts of non-current assets written off on gain/loss on disposal to CIES	2,097
(9,370)	- Adjusting amount written out to Revaluation reserve	(4,793)
(343,702)	**Net written out amount of the cost of non-current assets consumed in year**	**(332,888)**
	Capital Financing for the year:	
(2,482)	- Use of Capital Receipts to finance new Capital expenditure	(2,274)
1,112	- Equal Pay Capitalisation	1,000
(7,238)	- Capital Grants and Contributions to the CIES	(17,901)
(8,394)	- Loan and Lease Principal repayments	(7,936)
(177)	- Capital expenditure charged against the General Fund	(608)
(360,881)	**Balance at 31st March**	**(360,607)**

23.2 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment (and Intangible Assets). The balance is reduced when assets with accumulated gains are revalued downward or impaired and the gains are lost, used in the provision of services and the gains are consumed through depreciation, or disposed of and the gains are realised. The reserve contains only revaluation gains accumulated since 1st April 2007, the date that reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

Restated 2010/11 £000		**2011/12 £000**
(304,516)	**Balance at 1st April**	**(76,770)**
218,354	(Upward) / downward Revaluation of Assets	(6,154)
9,370	Downward revaluation of assets and impairment losses not charged to the Surplus / (Deficit) on the provision of services	4,790
22	Accumulated losses on assets sold	(418)
(76,770)	**Balance at 31st March**	**(78,552)**

Notes to the Financial Statements

23.3 Pension Reserve

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

2010/11 £000		2011/12 £000
109,258	**Balance at 1st April**	**63,802**
(9,591)	Actuarial (gains) or losses on pension assets and liabilities	(6,072)
(23,717)	Reversals of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	8,443
(12,148)	Employer's pension contributions	(11,161)
63,802	**Balance at 31st March**	**55,012**

23.4 Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year. An example of this is annual leave entitlement carried forward at 31st March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the account.

2010/11 £000	2010/11 £000		2011/12 £000	2011/12 £000
	7,115	**Balance at 1st April**		**6,177**
(7,115)		Settlement or cancellation of accrual made at end of preceding year	(6,177)	
6,177		Amounts accrued at the end of the current year	4,989	
	(938)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(1,188)
	6,177	**Balance at 31st March**		**4,989**

Notes to the Financial Statements

23. 5 Financial Instruments Adjustment Account

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

2010/11 £000		2011/12 £000
3,934	**Balance at 1st April**	**3,722**
650	Proportion of equivalent interest rate calculation on lender option / borrower option loans	643
(862)	Change in share of equivalent interest rate calculation	(856)
3,722	**Balance at 31st March**	**3,509**

23.6 Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost or disposed of and the gains are realised. There was no movement in the reserve during 2010/11 and 2011/12. The balance at 31 March 2012 is £(0.612) million.

Notes to the Financial Statements

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

2010/11 £000		2011/12 £000
(30,854)	**Net surplus or (deficit) on the provision of services**	**415**
	Adjustment to surplus or deficit on the provision of services for noncash movements	
32,376	Depreciation	30,087
52,359	Impairment & downward revaluations (& non-sale derecognitions)	46
125	Amortisation	176
270	Adjustment for internal interest charged	399
(45)	(Increase)/Decrease in Stock	(104)
2,070	(Increase)/Decrease in Debtors	(6,254)
4	(Increase)/Decrease in Interest and Dividend Debtors	(241)
650	Adjustment for effective interest rates	0
10,757	Increase/(Decrease) in Creditors	(6,747)
(1,140)	Increase/(Decrease) in Interest Creditors	209
(35,865)	Pension Liability	(2,269)
13,381	Carrying amount of non-current assets sold	2,097
(738)	Contributions to Other Reserves/Provisions	(1,281)
10,000	Carrying amount of short and long term investments sold	0
(1,189)	Other non-cash movements and transfers to investing activities	0
83,014		**16,118**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
(10,000)	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0
(12,558)	Proceeds from the sale of PP&E, investment property and intangible assets	(1,794)
(7,239)	Capital grants included in "Taxation & non-specific grant income”	(17,902)
0	Premiums or discounts on the repayment of financial liabilities	8
(29,797)		**(19,688)**
22,363	**Net Cash Flows from Operating Activities**	**(3,155)**

25. Net Cash Flows from Investing Activities

2010/11 £000		2011/12 £000
(39,155)	Purchase of PP&E, investment property and intangible assets	(45,528)
(5,000)	Purchase of Short Term Investments (not considered to be cash equivalents)	(29,900)
0	Other payments for investing activities	(3)
12,558	Proceeds from the sale of PP&E, investment property and intangible assets	1,461
10,000	Proceeds from Short Term Investments (not considered to be cash equivalents)	10,000
4,499	Other Receipts from Investing Activities	18,474
(17,098)	**Net Cash flows from Investing Activities**	**(45,496)**

Notes to the Financial Statements

26. Net Cash Flows from Financing Activities

2010/11 £000		2011/12 £000
162,100	Cash Receipts from Short and Long Term Borrowing	203,342
(847)	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(1,862)
(145,228)	Repayment of Short and Long Term Borrowing	(165,828)
16,025	**Net Cash flows from Financing Activities**	**35,652**

27. Amounts Reported for Resource Allocation Decisions

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

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

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

2010/11	**Communities & Wellbeing £000**	**Corporate Resources £000**	**Education & Children's Services £000**	**Joint Boards £000**
Fees, charges and other service income	(16,290)	(62,035)	(1,760)	(315)
Government grants	-	-	-	-
Total Income	**(16,290)**	**(62,035)**	**(1,760)**	**(315)**
Employee expenses	18,551	37,559	60,789	-
Other Service Expenses	36,810	67,133	31,015	10,071
Total Expenditure	**55,361**	**104,692**	**91,804**	**10,071**
Net Expenditure	**39,071**	**42,657**	**90,044**	**9,756**

	Management £000	**Non Distributable Costs £000**	**Corporate Costs £000**	**Total £000**
Fees, charges and other service income	-	-	(42,046)	**(122,446)**
Government grants	-	-	(156,205)	**(156,205)**
Total Income	**-**	**-**	**(198,251)**	**(278,651)**
Employee expenses	675	3,749	487	**121,810**
Other Service Expenses	59	-	10,066	**155,154**
Total Expenditure	**734**	**3,749**	**10,553**	**276,964**
Net Expenditure	**734**	**3,749**	**(187,698)**	**(1,687)**

Notes to the Financial Statements

2011/12	Communities & Wellbeing £000	Corporate Resources £000	Education & Children's Services £000	Joint Boards £000
Fees, charges and other service income	(15,589)	(34,968)	(1,427)	(292)
Government grants	(2,442)	(30,278)	(399)	-
Total Income	**(18,031)**	**(65,246)**	**(1,826)**	**(292)**
Employee expenses	18,602	35,834	59,531	-
Other Service Expenses	39,064	69,399	33,192	9,469
Total Expenditure	**57,666**	**105,233**	**92,723**	**9,469**
Net Expenditure	**39,635**	**39,987**	**90,897**	**9,177**

	Management £000	Non Distributable Costs £000	Corporate Costs £000	Total £000
Fees, charges and other service income	(1)	-	(38,351)	**(90,628)**
Government grants	-	-	(152,029)	**(185,148)**
Total Income	**(1)**	**-**	**(190,380)**	**(275,776)**
Employee expenses	1,097	3,550	0	**118,613**
Other Service Expenses	83	-	5,063	**156,270**
Total Expenditure	**1,180**	**3,550**	**5,063**	**274,884**
Net Expenditure	**1,179**	**3,550**	**(185,317)**	**(892)**

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

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

2010/11 £000		2011/12 £000
(1,687)	Net Expenditure per Council functional analysis	(892)
(710)	HRA Outturn	(29)
(2,397)	**Total Net Expenditure**	**(921)**
	Net Expenditure of services not included in CIES	
(7,547)	Loans fund Principal repayments	(7,036)
(847)	Statutory Provision for the repayment of Debt	(899)
(177)	Capital Financed from Current Revenue	(608)
(120)	Capital Fund	0
(296)	Repairs and Renewals	(360)
(53)	Other	0
	Amounts in the CIES not reported to Management	
84,859	Depreciation, Impairment and Amortisation	30,272
823	Surplus / (losses) on sale of fixed assets	303
650	Financing Costs	643
(35,865)	Pensions Interest Costs	(2,718)
(938)	Short Term Accumulated Absences	(1,188)
(7,238)	Government Grants and Contributions	(17,903)
30,854	**(Surplus) or Deficit on Provision of Services**	**(415)**

Notes to the Financial Statements

28. Statutory Trading Accounts

The Local Government in Scotland Act 2003 repealed Compulsory Competitive Tendering and set out a requirement for Statutory Trading Accounts to be maintained for Significant Trading Operations and that they should break even over a three-year rolling period. The Council maintains Statutory Trading Accounts for the following activities which it considers to be Significant Trading Operations. For the rolling period 2009/10 to 2011/12 Building Maintenance and Roads Maintenance achieved the required financial objective.

	2011/12 £000	2010/11 £000	2009/10 £000	Cumulative £000
Building Maintenance				
Turnover	6,534	7,179	6,976	
Surplus/ (Deficit)	62	70	473	**605**
Less cost of capital				**(25)**
Movement in Accumulated Absence Account				**(2)**
Revised Surplus				**578**
Roads Maintenance				
Turnover	8,695	9,006	4,476	
Surplus/ (Deficit)	147	126	104	**377**
Less cost of capital				**(73)**
Movement in Accumulated Absence account				**9**
Revised Surplus				**313**

The surplus of £0.062 million on Building Maintenance is shown in the CIES under Financing and Investment Income and Expenditure. In accordance with BVACOP, Roads Maintenance is included within the Net Cost of Services on the CIES as part of Roads and Transportation Services. The cost of capital is illustrated above but is not reflected in the CIES.

Notes to the Financial Statements

29. Agency Income and Expenditure

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

The main items of agency expenditure and income were:

Restated 2010/11 £000		2011/12 £000
	Expenditure	
	Payments to other Local Authorities in respect of:	
864	Social Work services for Midlothian clients	884
189	Services for Additional Support Needs pupils	258
53	Pentland Hills Regional Park	55
40	Non Domestic Rates collection services	52
39	Childcare services	14
11	Sample analysis	10
33	Taxi inspections	28
26	Mortuary Services	28
30	Visually impaired service	31
48	Fostering Placements	49
118	Other	111
	Payments made to Health Boards in respect of:	
193	Speech and Language Service	195
1,644		**1,715**
	Income	
	Receipts from other Local Authorities in respect of:	
309	Social Work services	345
116	Additional Support Needs pupils	27
67	Audiology service	59
217	Receipts from Scottish Water for tax collection	38
	Receipts from Housing Associations in respect of:	225
11	Social Work services	8
720		**702**

30. Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice is £0.251 million (2010/11 £0.247 million). There were no other fees payable in respect of any other services provided by the appointed auditor.

31. Devolved School Management

The net amount of balances to be carried forward for schools under the scheme is £1.016 million (2010/11 £0.655 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

Notes to the Financial Statements

32. Grant Income Credited to Services

The Council credited the following grants to the CIES:

2010/11 £000		2011/12 £000
27,259	Housing/Rent Benefit Subsidy	29,737
5,149	Lothian Health Board/Resource Transfer	5,259
908	Criminal Justice	972
642	Housing Benefit Administration	657
567	Skillseekers	470
500	Future Jobs Fund	253
410	Edinburgh Science triangle	96
319	Determined to Succeed	16
317	Private Sector Housing Grant	265
315	Police Grant	292
270	Active Schools/Sports Scotland	206
144	Flexible New Deal	-
144	Working for Families	-
141	Learning disabilities Day/Residential Care	-
128	Lifeskills Project	52
120	Strategic Waste Partnership	-
107	Contaminated Land	249
105	PAVE	14
104	Youth Music Initiative	67
101	Community Task Force	18
-	Activity Agreement	150
-	Heritage Lottery	682
97	New Leaf	139
1,973	Other Grants and Contributions	514
39,820	**Total Grants and Contributions**	**40,108**

33. Capital Grants Received in Advance

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

2010/11 £000		2011/12 £000
5,628	**Balance at 1April**	**7,126**
1,590	New capital grants received in advance, conditions of use not met	789
(92)	Amounts released to CIES, conditions of use met	(283)
7,126	**Balance at 31 March**	**7,632**

Notes to the Financial Statements

34. 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:

2010/11 £000		2011/12 £000
6,746	Lothian and Borders Police Board	6,405
2,432	Lothian and Borders Fire Board	2,213
577	Lothian Valuation Board	560
12,566	Lothian Pension Fund	12,525

Creditors within the Balance Sheet include £0.918 million (2010/11 £0.914 million) due to Lothian Pension Fund.

35. Capital Expenditure and Capital Receipts

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

2010/11 £000	Capital Expenditure	2011/12 £000
	General Fund Services:	
7,366	Property, Plant and Equipment	19,870
42	Assets Held for Sale	0
152	Intangible Assets	167
7,560	**General Fund Total**	**20,037**
	Housing Revenue Account	
26,363	**Property, Plant and Equipment**	**25,343**
33,923	**Total Capital Expenditure**	**45,380**
	Capital Financing:	
2,418	Capital Receipts	1,754
6,649	Government Grants	15,662
767	Contribution from Other Bodies	2,240
65	Other Receipts	1,128
24,024	Borrowing Required	24,596
33,923	**Capital Financing Total**	**45,380**

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

2010/11 £000	Capital Receipts from the disposal of fixed assets Gross Capital Receipts during year:	2011/12 £000
2,418	Sale of Council Houses	1,274
9,986	Other Land and Buildings	392
154	Vehicles	88
12,558	**Gross Capital Receipts Total**	**1,754**
	Capital Receipts:	
2,483	Utilised in the year	1,754
10,075	Retained and transferred to the Capital Fund	0
12,558	**Capital Receipts Applied Total**	**1,754**

Notes to the Financial Statements

36. Commitments under Capital Contracts

At the end of the year, the Council was contractually committed to capital works which amounted to approximately £38.670 million (2010/11 £12.472 million).

37. Leases

Finance

In addition to the PPP's which are explained in depth in note 38, the Council has assets financed under the terms of a finance lease for the Bonnyrigg District Heating Scheme. The amount charged to the revenue account under these arrangements in the year was £0.065 million (2010/11 £0.063 million). This all related to Vehicles, Plant and Equipment. Future cash payments under this leases within 1 year is £0.065 million (2010/11 £0.065 million), within 2 to 5 years is nil (2010/11 £0.066 million) and over 5 years is nil (2010/11 nil). The carrying value of these assets at 31 March 2012 was £0.140 million (2010/11 £0.179 million).

Operating

The council uses assets financed under the terms of an operating lease. The amount charged to revenue for the year was £0.658 million (2010/11 £0.658 million). This all related to Vehicles, Plant and Equipment. Future cash payments under these leases within 1 year is £0.453 million (2010/11 £0.400 million) and within 2 to 5 years is £0.258 million (2010/11 £0.195 million).

38. Public Private Partnership

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

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

The assets used to provide the services at these schools are recognised in the Councils Balance Sheet under the Property, Plant and Equipment category.

The value of assets held under PFI arrangements at 31 March 2012 is £63,967 million (2010/11 £66.470 million). The movement is depreciation of £1.236 million (2010/11 £1.296 million) a revaluation decrease of £1.267 million. There is a deferred liability at 31 March 2012 for the financing of these assets of £60.204 million (2010/11 £61.038 million). Details of payments to be made under PFI arrangements are:

	Dalkeith Campus				Primary Schools			
	Liability	Interest	Service Charge	Total	Liability	Interest	Service Charge	Total
Period	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Within 1 year	376	2,676	1,684	4,736	521	2,481	1,633	4,636
Within 2 to 5 years	1,930	10,277	7,169	19,376	2,404	9,521	7,063	18,988
Within 6 to 10 years	3,751	11,508	10,016	25,275	4,054	10,788	9,960	24,802
Within 11 to 15 years	6,101	9,158	11,332	26,592	5,765	9,077	11,268	26,111
Within 16 to 20 years	9,923	5,336	12,822	28,081	8,197	6,645	12,749	27,591
Within 21 to 25 years	4,107	570	4,267	8,944	11,655	3,187	14,425	29,267
Within 26 to 30 years					1,419	103	1,595	3,117
Total Contract	**26,188**	**39,526**	**47,290**	**113,004**	**34,016**	**41,803**	**58,693**	**134,512**

39. Retirement Benefits

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

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

In 2011/12 the Council paid £5.000 million (2010/11 £5.112million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 14.9% (2010/11 14.9%).

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

In 2011/12 the Council paid an employer contribution of £11.161 million (2010/11 £12.148 million) into the Lothian Pension Fund, representing 24.7% (2010/11 24.9%) of pensionable pay. This is the expenditure met from Government Grants and Local Taxation.

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following transactions have been made in the CIES and the Movement in Reserves Statement:

Notes to the Financial Statements

CIES

2010/11 £000		2011/12 £000
	Net cost of services:	
10,067	Current Service Cost	8,127
(34,409)	Past Service Costs	762
356	Curtailments	2
	Net operating expenditure:	
18,036	Interest cost	17,739
(17,767)	Expected return on scheme assets	(18,187)
(23,717)	**Net charge to CIES**	**8,443**
	Adjustment between accounting basis & funding basis under regulation	
23,717	Reversal of net charges made for retirement benefits in accordance with IAS 19	(8,443)
12,148	Employers contributions payable to pension fund	11,161

The service cost figures include an allowance for administration expenses of 0.3% of payroll.

In addition to the recognised gains and losses included in the CIES, actuarial gains of £6.072 million (2010/11 gain of £9.591 million) were included in other comprehensive income and expenditure in the CIES. The cumulative loss at 31 March 2012 is £69.205 million (31/3/11 loss of £75.277 million).

Assets and Liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

2010/11 £000		2011/12 £000
350,937	Opening Balance	322,404
10,067	Current Service Costs	8,127
18,036	Interest Cost	17,739
3,000	Contribution by Members	2,847
(13,966)	Actuarial losses/(gains)	(23,292)
(34,409)	Past Service Costs / (Gains)	762
356	Losses/(gains) on curtailments	2
(1,971)	Estimated Unfunded Benefits Paid	(915)
(9,646)	Estimated Benefits Paid	(10,565)
322,404	**Balance at 31 March**	**317,109**

2010/11 £000	Reconciliation of fair value of the scheme assets:	2011/12 £000
241,678	Opening Balance	258,602
17,767	Expected return on Assets	18,187
3,001	Contributions by Members	2,847
10,177	Contributions by the Employer	10,246
1,971	Contribution in respect of unfunded benefits	915
(4,375)	Actuarial gains/(losses)	(17,221)
(1,971)	Unfunded Benefits paid	(915)
(9,646)	Benefits paid	(10,565)
258,602	**Balance at 31 March**	**262,096**

Notes to the Financial Statements

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

Scheme History

	2011/12	2010/11	2009/10	2008/09	2007/08
	£000	**£000**	**£000**	**£000**	**£000**
Present value of liabilities	(317,109)	(322,404)	(350,936)	(219,691)	(233,398)
Fair Value of Assets	262,096	258,602	241,678	177,015	220,625
Surplus/(deficit)	**(55,013)**	**(63,802)**	**(109,258)**	**(42,676)**	**(12,773)**

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £317,109 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £55,013 million.

However, under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. The fund's actuary reported that, at 31 March 2011, the funding level was 98% and that a period of 20 years has been adopted in assessing the level of contribution required to fund that deficiency. The employers contribution in 2011/12 was 338% of employees contributions.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the protected unit credit method, an estimate of the pensions that will be payable in future years are dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by the actuary and are based on the latest full valuation of the scheme as at 31 March 2011.

The main assumptions used by the actuary have been:

2010/11		2011/12
	Long-term expected rate of return on assets in the scheme:	
7.5%	Equity investments	6.2%
4.9%	Bonds	4.0%
5.5%	Property	4.4%
4.6%	Cash	3.5%
	Longevity at 65 for current pensions (Mortality):	
20.8	Men (years)	20.4
24.1	Woman (years)	22.8
	Longevity at 65 for future pensions (Mortality):	
22.3	Men (years)	22.6
25.7	Woman (years)	25.4
2.8%	Inflation / Pension Increase Rate	2.5%
5.1%	Salary Increase Rate	4.8%
7.0%	Expected Return on Assets	5.8%
5.5%	Discount Rate	4.8%
	Take up of options to convert Annual Pension into Retirement	
50%	Lump Sum – Services to April 2009	50%
75%	Retirement Lump Sum - Services post April 2009	75%

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

31/03/2011		**31/03/2012**
79%	Equity Investments	79%
8%	Bonds	8%
13%	Other Assets	13%
100%		**100%**

History of experience gains and losses

The actuarial gains identified as movements in the Pension Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets and liabilities at 31 March 2012.

	2011/12	**2010/11**	**2009/10**	**2008/09**	**2007/08**
	%	**%**	**%**	**%**	**%**
Differences between the expected and actual return on assets	(6.6)	(1.8)	(20.7)	(34.4)	(10.1)
Experience gains and losses on liabilities	(9.26)	5.4	0.1	3.6	0.1

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

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

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

40. Contingent Liability

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

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

There are some 24 trusts, bequests and community funds of varying size managed by the Council, each of which has specific objectives and conditions.

The main funds are:

As at 31.03.11		**As at 31.03.12**
£000		**£000**
17	Dalkeith Common Good	17
2	Penicuik Common Good	2
35	Community Mining Funds	35
84	Other Funds	85
138	**Total**	**139**

The funds do not represent assets of the Council and are included in the Balance Sheet as creditors except the Community Mining Funds which are held in separate bank accounts.
Three of the bequests are registered charities. They are as follows:

Notes to the Financial Statements

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

Details of movements during 2011/12 are shown below:

Name	**Balance at 31 March 2011** £	**Expenditure in 2011/12** £	**Income in 2011/12** £	**Balance at 31 March 2012** £
Sir Samuel Chisholm Bequest	1,272.56	144.09	324.15	1,452.62
Fraser Hogg Bequest	4,292.57	9.21	42.77	4,326.13
Macfie Hall Trust	255.80	0	2.55	258.35
Total	**5,820.93**	**153.30**	**369.47**	**6,037.10**

42. Prior Period Adjustments

The Council adopted Financial Reporting Standards 30 in its Financial Statements for the year ended 31st March 2012 (2011/12). The statements include a restated Balance Sheet as at 31st March 2011 (2010/11).

The principal accounting changes arising for the period ended 31 March 2010, following introduction of IFRS, were in the following areas:

Balance Sheet as at 31 March 2011 - Restated

	Balance at 31 March 2011 £000	FRS 30 £000	Restated Balance at 31 March 2011 £000
Property, Plant and Equipment	703,595	0	703,595
Intangible Assets	444	0	444
Assets held for Sale	2,079	0	2,079
Heritage Assets	0	30	30
Long Term Investments	962	0	962
Long Term Debtors	7,081	0	7,081
Long Term Assets	**714,161**	**30**	**714,191**
Short Term Investments	5,047	0	5,047
Inventories	662	0	662
Short Term Debtors	9,964	0	9,964
Cash and Cash Equivalents	25,714	0	25,714
Current Assets	**41,387**	**0**	**41,387**
Short Term Borrowing	63,042	0	63,042
Short Term Creditors	30,635	0	30,635
Provisions	4,324	0	4,324
Grants Receipts in Advance	7,126	0	7,126
Current Liabilities	**105,127**	**0**	**105,127**
Long Term Borrowing	126,252	0	126,252
Other Long Term Liabilities	124,070	0	124,070
Long Term Liabilities	**251,223**	**0**	**251,223**
Net Assets	**400,099**	**30**	**400,129**
Usable Reserves	35,567	0	35,567
Unusable Reserves	364,532	30	364,562
Total Reserves	**400,099**	**30**	**400,129**

Notes to the Financial Statements

43. Post Balance Sheet Events

The statement of Accounts was authorized for issue by the Chief Financial Officer on 28th September 2012. Events taking place after this date are not reflected in the financial statements or notes. The financial statements and notes have not been adjusted for the following event. Although the event provides information that is relevant to an understanding of the Council's financial position as at 31 March 2012, it does not relate to conditions existing at that date.

The Police and Fire Reform (Scotland) Act 2012 received royal assent on 7 August 2012. Responsibility for Police and Fire Rescue Services will transfer from local government to new central government bodies on 1 April 2013. The full impact of the reform process is currently being assessed, however this event is likely to have a significant impact on Midlothian Council's future accounts as follows:

- Requisition payments made by the Council to Lothian and Borders Joint Police Board and Lothian and Borders Fire & Rescue Services as outlined in the Comprehensive Income and Expenditure Statement, will cease from 1 April 2013.
- Scottish Government grants (revenue and capital) currently received by the Council on behalf of both bodies will cease from 1 April 2013.
- The Council's Group Accounts will no longer include both bodies from 1 April 2013.

Housing Revenue Account Income and Expenditure Account

For the year ended 31 March 2012

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

2010/11 £000		2011/12 £000	per house per week £
	Income		
16,705	Gross dwelling rents	17,913	51.55
415	Non dwelling rents	427	1.23
810	Other Income	3,552	10.22
17,930		**21,892**	**63.00**
	Expenditure		
5,882	Repairs and Maintenance	6,920	19.91
4,490	Supervision and Management	4,264	12.27
13,576	Depreciation of Non-Current Assets	11,172	32.15
49,376	Impairment of Non-Current Assets	(83)	(0.24)
1,569	Other Expenditure	1,393	4.01
0	Increase / (Decrease) in Bad Debt Provision	110	0.32
74,893		**23,776**	**68.42**
56,963	**Net Cost of HRA services per the whole council Comprehensive Income and Expenditure Account**	**1,884**	**5.42**
225	HRA share of Corporate and Democratic Core	225	0.65
57,188	**Net Cost of HRA Services**	**2,109**	**6.07**
	HRA share of the operating income and expenditure included in the whole council accounts		
2,336	Loss / (Gain) on sale of HRA fixed assets	539	1.55
3,292	Interest Payable and similar charges	3,874	11.15
(113)	Interest and Investment Income	(144)	(0.41)
673	Capital Grants Unapplied	3,487	10.03
19	Pensions Interest Cost and Expected Return on Pension Asset	(31)	(0.09)
63,395	**Deficit / (Surplus) for the year on the HRA Services**	**9,834**	**28.30**

Movement on the HRA Statement for Year ended 31 March 2012

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

2010/11 £000		2011/12 £000	per house per week
63,395	Deficit for the year on the HRA Income & Expenditure Account	9,834	28.30
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
(2,336)	Gain/(loss) on sale of HRA fixed assets	(539)	(1.55)
(61,639)	Transfer to/(from) Capital Adjustment Account	(9,383)	(27.00)
(130)	HRA share of contributions to/from pension reserve	59	0.17
(710)	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**(29)**	**(0.08)**
(10,970)	Housing Revenue Account Balance brought forward	**(11,680)**	**(33.61)**
(11,680)	**Housing Revenue Account Balance carried forward**	**(11,709)**	**(33.69)**

Notes to the Housing Revenue Account

1. General
This account reflects the statutory requirement to account for local council housing provision, as defined in the Housing (Scotland) Act 1987. It shows the major elements of housing revenue expenditure and capital financing costs, and how these are met by rents and other income.

2. Housing Stock
At 31 March 2012 the Council had 6,792 houses (31 March 2010 6,573) which can be analysed as follows:

2010/11	**Type of Dwelling**	**2011/12**
Number		Number
776	1 Bedroom	774
3,713	2 Bedroom	3,804
1,780	3 Bedroom	1,879
295	4 Bedroom	326
9	5 / 6 Bedroom	9
6,573	Total	**6,792**

3. Rent Arrears
At the end of the year rent arrears amounted to £1.796 million (2010/11 £1.701 million) for which a provision for bad and doubtful debts of £0.500 million (2010/11 £0.390 million) exists.

4. Void Properties
The total value of uncollectable void rents for main provision properties amounted to £0.290 million (2010/11 £0.327 million).This has been netted against rental income.

Council Tax Income Account

For the Year ended 31 March 2012

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 council area is placed into one of eight valuation bands, A to H. The Council declares a tax for band D properties and all other properties are charged a proportion of this, lower valued properties pay less; higher valued properties pay more.

2010/11 £000		2011/12 £000
42,785	Gross Council Tax levied and Contributions in Lieu	43,367
	Less :	
4,710	Discounts	4,768
1,136	Write-off of Uncollectable Debts and Allowances for Impairment	1,151
(87)	Council Tax Benefits (net of Government Grant)	(71)
37,026		**37,519**
103	Adjustments to previous years Community Charge and Council Tax	22
37,129	**Transfers to the General Fund**	**37,541**

Notes to the Council Tax Income Account

1. Calculation of the council tax base for the year 2011/12.

	Property Bands								
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Properties	999	12,337	10,283	4,405	4,299	2,547	1,692	162	36,724
Disabled relief	38	3	-6	-6	-10	-5	-14	0	0
Less									
Exemptions	65	460	230	81	193	45	24	4	1,102
Discounts (25%)	154	1,426	867	295	208	88	49	5	3,092
Discounts (50%)	11	87	61	38	19	12	14	3	245
Effective properties	807	10,367	9,119	3,985	3,869	2,397	1,591	150	32,285
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D equivalents	538	8,063	8,106	3,985	4,728	3,463	2,652	300	31,835
Contributions in lieu – Band D equivalents									203
Total									**32,038**
Provision for non payment									(961)
Council Tax Base									**31,077**

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

Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Numbers	807	10,367	9,119	3,985	3,869	2,397	1,591	150	32,285
£	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 2012

The rates collected from non-domestic ratepayers during the year are shown below. Any difference between the rates collected and the amount the Council is guaranteed to receive under the National Pooling arrangements is adjusted via the Government's Revenue Support Grant to the Council. The non-domestic rate income is redistributed from the national pool in proportion to the resident population of each local council and therefore bears no direct relationship with the amount collected by those authorities.

2010/11 £000		2011/12 £000
30,425	Gross rates levied	32,699
	Less:	
7,072	Reliefs and other deductions	7,669
0	Interest paid	0
609	Write-offs of uncollectable debts and allowance for impairment	739
283	Adjustments to previous years	265
22,461	**Net Non Domestic Rate Income**	**24,026**
	Allocated:	
22,526	Contribution to national non-domestic rates pool	24,092
(65)	Midlothian Council	(66)
22,461		**24,026**

Notes

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £23.254 million (2010/11 £32.172 million).

2. Occupiers of non-domestic properties pay rates based on the valuation of the property within the valuation roll for Midlothian. The non-domestic rate poundage is determined by the Scottish Government, and was 42.6p per £ (2010/11 40.7p per £) where the rateable value was less than or equal to £35,000 and 43.3p per £ (2010/11 41.4p per £) where the rateable value exceeded £35,000. Subject to eligibility, properties with a rateable value up to £18,000 can apply for relief.

3. Small Business Bonus Scheme - From 1 April 2010, a ratepayer who occupies or is entitled to occupy one or more non-domestic properties which have a combined rateable value of £18,000 or less then they may be eligible for a discount of between 25% and 100% on their bill. In addition, where the cumulative rateable value of a businesses properties falls between £18,000 and £25,000, the Scheme will offer 25% relief to individual properties with a rateable value of up to £18,000.

4. Rateable Value as at the start of the year

Number 2010/11	Rateable Value 2010/11 £000		Number 2011/12	Rateable Value 2011/12 £000
1,596	40,612	Shops, Offices and Other Commercial Subjects	1,614	41,632
838	15,314	Industrial and Freight Transport	843	15,173
295	17,283	Miscellaneous (Schools etc)	294	19,283
2,729	**73,209**		**2,751**	**76,088**

Group Movement in Reserves Statement

	Total Usable Reserves £000	Total Unusable Reserves £000	**Total Council Reserves £000**	Council's share of subsidiaries and associates £000	**Total Group Reserves £000**
Opening Balances at 1 April 2010	**(21,514)**	**(617,369)**	**(638,884)**	**157,962**	**(480,921)**
Movement in Reserves during 2010/11					
Surplus or (deficit) on provision of services	30,854		**30,854**	(10,313)	20,541
Other Comprehensive Expenditure and Income		207,900	**207,900**	(6,221)	201,679
Total Comprehensive Expenditure and Income	**30,854**	**207,900**	**238,754**	**(16,534)**	**222,220**
Adjustments between accounting basis and funding basis under regulations (note 4)	**(44,907)**	**44,907**	**0**	**0**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(14,053)**	**252,807**	**238,754**	**(16,534)**	**222,220**
Transfers to / from Other Statutory Reserves	0	0	**0**	0	0
Increase / Decrease in 2010/11	**(14,053)**	**252,807**	**238,754**	**(16,534)**	**222,220**
Balance at 31 March 2011	**(35,567)**	**(364,562)**	**(400,129)**	**141,427**	**(258,701)**
Movement in Reserves during 2011/12					
Surplus or (deficit) on provision of services	(415)		**(415)**	7,886	7,471
Other Comprehensive Expenditure and Income		(13,085)	**(13,085)**	17,226	4,141
Total Comprehensive Expenditure and Income	**(415)**	**(13,085)**	**(13,500)**	**25,112**	**11,612**
Adjustments between accounting basis and funding basis under regulations (note 4)	**(1,386)**	**1,386**	**0**	**0**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(1,801)**	**(11,699)**	**(13,500)**	**25,112**	**11,612**
Transfers to / from Other Statutory Reserves	0	0	**0**	0	0
Increase / Decrease in 2011/12	**(1,801)**	**(11,699)**	**(13,500)**	**25,112**	**11,612**
Balance at 31 March 2012	**(37,368)**	**(376,261)**	**(413,629)**	**166,540**	**(247,089)**

Group Comprehensive Income and Expenditure Statement

For the Year ended 31 March 2012

2010/11 Expenditure £000 Restated	2010/11 Income £000 Restated	2010/11 Net Expenditure £000 Restated	**Continuing Operations**	**Notes**	2011/12 Gross Expenditure £000	2011/12 Gross Income £000	2011/12 Net Expenditure £000
90,937	2,983	87,954	Education Services		82,092	2,939	79,153
55,644	10,866	44,778	Social Work		60,636	12,492	48,144
14,185	3,836	10,349	Culture and Related Services		14,314	5,002	9,312
10,407	246	10,161	Roads and Transport Services		7,094	235	6,859
7,061	315	6,746	Police Services		6,697	292	6,405
9,440	1,543	7,897	Environmental Services		9,582	1,667	7,915
9,420	4,022	5,398	Planning and Development Services		5,817	3,476	2,340
2,432	0	2,432	Fire Services		2,213	0	2,213
74,893	17,930	56,963	Housing Revenue Account		23,778	21,894	1,884
32,215	25,223	6,992	Other Housing Services		36,729	28,963	7,766
4,450	882	3,568	Corporate & Democratic Core		3,929	940	2,989
1,521	985	536	Central Services to the Public		1,083	1,067	16
(33,500)	0	(33,500)	Non-distributable Costs		1,655	0	1,655
279,105	**68,831**	**210,274**	**Deficit on Continuing Operations**		**255,619**	**78,968**	**176,651**
		819	Other Operating Expenditure				301
		20,956	Financing and Investment Income and Expenditure	6,*4*			20,306
		(192,913)	Taxation and Non-Specific Grant Income	8			(189,512)
		39,136	**(Surplus) or Deficit on Provision of Services**	*3*			**7,746**
		(18,595)	Associates and Joint Ventures accounted for on an equity basis				(298)
		20,541	**Group (Surplus) or Deficit**				**7,448**
		218,839	(Surplus) or Deficit on revaluation of non current assets	*5*			(6,312)
		(16,258)	Actuarial (gains) / losses on pension assets / liabilities	3,4,*5*			11,273
		(902)	Other (Gains) / Losses	*5*			(937)
		201,679	**Other Comprehensive Income and Expenditure**				**4,024**
		222,220	**Total Comprehensive Income and Expenditure**				**11,472**

Notes in *italics* relate to group notes. Others relate to single entity.

Group Balance Sheet as at 31 March 2012

Restated 31st March 2011 £000		Notes	31st March 2012 £000
703,595	Property, Plant and Equipment	9	719,150
444	Intangible Assets	10	436
2,079	Assets held for Sale	11	5,700
30	Heritage Assets	12	30
962	Long Term Investments	14	962
7,076	Long Term Debtors	16	4,704
(141,545)	Investments in associates and joint ventures		(166,352)
572,641	**Long Term Assets**		**564,630**
5,059	Short Term Investments	13	25,198
662	Inventories	15	767
9,964	Short Term Debtors	16	18,817
25,732	Cash and Cash Equivalents	17	12,750
41,417	**Current Assets**		**57,532**
63,043	Short Term Borrowing	13	83,997
30,543	Short Term Creditors	18	22,745
4,324	Provisions	19, 20	3,043
7,126	Grants Receipts in Advance	33	7,631
105,036	**Current Liabilities**		**117,416**
126,251	Long Term Borrowing	13	143,020
124,070	Other Long Term Liabilities	21	114,319
250,321	**Long Term Liabilities**		**257,339**
258,701	**Net Assets**		**247,407**
35,567	Usable Reserves	4,22	37,418
364,563	Unusable Reserves	4,23	376,261
(141,429)	Share of Associates Reserves		(166,272)
258,701	**Group Reserves**		**247,407**

Signed:

Gary Fairley
Head of Finance and Human Resources
28 September 2012

Group Cash Flow Statement

For the Year ended 31 March 2012

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.

2010/11 £000		2011/12 £000
(20,541)	**Net surplus or deficit on the provision of services**	**(7,448)**
72,591	Adjustments to surplus or deficit on the provision of services for non cash movements	23,999
(29,797)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(19,688)
22,253	**Net Cash Flows from Operating Activities**	**(3,137)**
(17,098)	Net cash flows from investing activities	(45,497)
16,025	Net cash flows from financing activities	35,652
21,180	**Net Increase or Decrease in Cash and Cash Equivalents**	**(12,982)**
4,552	Cash and cash equivalents at the beginning of the reporting year	25,732
25,732	Cash and cash equivalents at the end of the reporting year	12,752
21,180	**Net (Increase)/Decrease in Cash**	**(12,982)**

Notes to the Group Financial Statements

1. Group Accounting Policies

1.1 Introduction
The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 based on International Financial Reporting Standards 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.

1.2. The Group
The Council has an interest in one wholly owned subsidiary company. It considers three Joint Boards as Associates.

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

The accounts of PS826 Ltd are published separately and are available from the Head of Finance and Human Resources, 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.

1.3. 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 Comprehensive 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 IAS 19 (i.e. their pension liability to pay retirement benefits in the long term).

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

1.4. 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 note 1 to the Financial Statements with the additions and exceptions shown as follows.

1.5. 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.

Notes to the Group Financial Statements

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 £166.222 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.

3. Reconciliation of the Single Entity Deficit for the year to the Group Deficit

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

2010/11 Net Expenditure £000		2011/12 Net Expenditure £000
30,854	**(Surplus) / Deficit on the Council's single entity Income and Expenditure Account for the year**	(415)
0	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	0
	(Surplus) or deficit arising from other entities included in the group accounts analysed into the amounts attributable to:	
1	- Subsidiaries and Joint Ventures	10
(10,314)	- Associates	7,853
20,541	**(Surplus) / Deficit for the Year on the Group Income and Expenditure Account**	**7,448**

4. Financing and Investment Income and Expenditure attributable to Group Entities

2010/11 £000 Single Entity	2010/11 £000 Group	2010/11 £000 Total		2011/12 £000 Single Entity	2011/12 £000 Group	2011/12 £000 Total
(829)	(63)	**(892)**	Interest Received and similar income	(1,200)	(3)	**(1,203)**
13,300	155	**13,455**	Interest Payable and Similar Charges	13,816	24	**13,840**
(70)	2	**(68)**	(Surplus) / Deficit on Trading Operations	(62)	10	**(52)**
0	0	**0**	Investment losses	38	0	**38**
269	8,192	**8,461**	Pension Interest cost and Expected returns on pension assets	(448)	8,112	**7,664**
12,670	**8,286**	**20,956**	**Total**	**12,144**	**8,143**	**20,287**

Notes to the Group Financial Statements

5. Other Comprehensive Income and Expenditure

2010/11 £000 Single Entity	2010/11 £000 Group	2010/11 £000 Total		2011/12 £000 Single Entity	2011/12 £000 Group	2011/12 £000 Total
218,354	485	**218,839**	(Surplus) on revaluation of non current assets	(6,157)	(155)	**(6,312)**
(9,591)	(6,667)	**(16,258)**	Actuarial (gains) / losses on pension assets / liabilities	(6,072)	17,345	**11,273**
(863)	(39)	**(902)**	Other (gains) / losses	(856)	(81)	**(937)**
207,900	**(6,221)**	**(201,679)**	**Other Comprehensive Income and Expenditure**	**(13,085)**	**17,226**	**4,024**

Independent Auditor's Report

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

We certify that we have audited the financial statements of Midlothian Council for the year ended 31 March 2012 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash-Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the 2011/12 Code).

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

Respective responsibilities of the Responsible Financial Officer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2011/12 Code of the state of the affairs of the body as at 31 March 2012 and of the income and expenditure of the body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2011/12 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Independent Auditor's Report Continued

Opinion on other prescribed matters

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement does not comply with the 2011/12 Code; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

Grant Thornton UK LLP
1-4 Atholl Crescent
EDINBURGH
EH3 8LQ

28 September 2012

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

24. Entity

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