

# **STATEMENT OF ACCOUNTS**

## **2005/06**

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# Foreword by the Director Corporate Services

## Introduction

The Statement of Accounts presents the financial position and performance of the Council for the year to 31 March 2006.

This foreword describes briefly the nature and purpose of each of the statements that follow and the principal items of interest or note that are contained within the accounts.

## The Financial Statements

**Consolidated Revenue Account:** brings together all the Council's income and expenditure in a single financial statement. This statement also shows how expenditure was funded together with the year end balance on the General Fund Reserve.

**The Housing Revenue Account:** reflects the statutory requirement to separately account for local authority housing provisions. The account is self financing as the cost of maintaining and financing council houses is met by council house rents.

**The Council Tax Income Account:** details the net income raised from Council Taxes raised under the Local Government Finance Act 1992.

**The Non Domestic Rate Income Account:** details the income from the rates levied under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992 on non domestic property.

**The Consolidated Balance Sheet:** sets out the overall financial position of the Council as at 31 March 2006.

**Statement of Total Movements in Reserves:** the statement summarises the movements in all reserves during the year.

**Cash Flow Statement:** complements the consolidated revenue account and balance sheet by disclosing the inflows and outflows of cash to and from the Council in the course of the year.

**The Group Accounts:** set out the overall financial position of the Council, its subsidiary

and its share of associates as at 31 March 2006.

**The Statement of Responsibilities for The Statement of Accounts:** sets out the respective responsibilities of the Authority and the Director Corporate Services for the accounts.

**The Statement of Corporate Governance:** sets out the arrangements for the Governance of the Council's affairs.

These accounting statements are supported by the Statement of Accounting Policies and appropriate notes to the accounts.

## Accounting Standards

Accounting standards are applied to local authorities through the medium of a statement of recommended practice (SORP). The Council is therefore required to comply with the requirements of "The Code of Practice on Local Authority Accounting in the United Kingdom 2005", which is issued by the CIPFA/LASAAC Joint Committee.

The SORP includes revised requirements for the preparation of group accounts which are consistent with *FRS 2 Accounting for Subsidiary Undertakings* and *FRS 9 Associates and Joint Ventures*. The Statement of Accounts includes a Group Income and Expenditure Account, Group Balance sheet, Group Cashflow Statement and a Group Statement of Total Movement in Reserves which incorporate:-

### Subsidiary

- Pacific Shelf 826 Ltd in which the Council is sole shareholder.

### Associates

- Shawfair Developments Ltd, in which the Council has a 37.5% shareholding.
- Lothian and Borders Police Board, Lothian and Borders Fire Board and Lothian Valuation Joint Board reflecting the significant influence the Council has in the affairs of the Boards through elected member representation.

To comply with the SORP requirements the Council has amended the accounting treatment of payments made as part of the Dalkeith Schools Campus PPP contract. The effect of this is to recognise as a long term debtor the element of the annual payment which, in effect, is payment for the assets, the current value of which is estimated at £35.000 million and which transfers to the Council at the end of the contract period.

**Financial Performance**

The General Fund Reserve at the start of the year was a surplus of £10.170 million, and it was expected that this would be reduced by £2.728 million in the year.

**Expenditure**

The expenditure to be met from government grants and local taxation in the year was £151.821 million. This is £0.945 million or 0.62% less than the revised budget.

Expenditure in the year includes £4.510 million in respect of the anticipated costs of settling backdated equal pay claims under The Equal Pay Act 1970. The act provides for equal pay between women and men in the same employment by giving the woman the right to equality in the terms of her contract of employment where she is employed on like for like work to that of a man or, work rated as equivalent or work of equal value. This cost has been met from reserves.

**Income**

The income from government grants and local taxation in the year was £150.569 million an increase of £0.531 million against the revised budget.

**Balances**

The effect of these is that the balance on the General Fund Reserve at the end of the year was £8.918 million of which £5.664 million is earmarked for the following purposes.

	£ million
Specific Divisional Reserves	3.811
Devolved School Management	0.363
Contingency for future pay claims	1.490
	5.664

This leaves a working balance and general contingency of £3.263 million, which equates

to approximately 2.15% of the expenditure met from government grants and local taxation.

**Housing Revenue Account**

When the Housing Revenue Account budget for the year was set, it was anticipated that the income from rents would fund all revenue expenditure and enhance reserves at the end of the year to £5.301 million.

In the event variations in income and expenditure result in a reserves at 31 March 2006 of £5.759 million.

**Capital**

Part 7 of the Local Government in Scotland Act 2003 requires that the Council must determine and keep under review how much it can afford to allocate to capital expenditure . In accordance with the SORP capital expenditure totalled £26.312 million in the year. The investment in Council assets and services was made possible by the realisation of capital receipts, grants and private contributions.

A full analysis of this figure and the sources of finance are provided in the notes to the consolidated balance sheet.

**Acknowledgements**

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

**Ian Jackson**

Director Corporate Services  
8th June 2006

# STATEMENT OF ACCOUNTING POLICIES

## 1. General

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2005 (The SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee. Exceptions to this are stated in the Policies and Notes to the accounts. The accounts have been prepared on a historic cost basis, other than changes resulting from the revaluation of certain categories of fixed assets.

## 2. Accruals

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

## 3. Fixed Assets

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

Land, housing stock, operational and non-operational properties have been valued on the basis of net realisable value in current use, or at net current replacement cost. Community and Infrastructure assets are stated on the basis of debt outstanding as at the year end as a proxy for depreciated historic cost.

Vehicles, Plant and Equipment have been valued by the Council at depreciated historic cost.

Charges are made to the revenue accounts for fixed assets in respect of depreciation and a financing charge. Depreciation charges have been calculated on a straight line basis for all operational assets with a finite useful life.

## 4. Government Grants

Government grants have been accounted for on an accruals basis. Grants which have funded the acquisition of fixed assets have been credited to the Government Grants Deferred Account.

## 5. Investments

Investments are shown in the Consolidated Balance Sheet at the lower of cost or net realisable value.

## 6. Capital Receipts

Capital receipts are applied to reduce the cost of individual projects, reduce the loan debt for the appropriate service account, or are credited to the Capital Fund for future use.

## 7. Overheads

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

## 8. Provisions for bad and doubtful debts

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

## 9. Reserves

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

## 10. Stock and work in progress

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

There is no work in progress included within the Consolidated Balance Sheet as at 31 March 2006.

## 11. Debt Redemption

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

The difference between depreciation charged to service accounts and loan repayments is charged to the Consolidated Revenue Account through a contribution to the Capital Financing Account.

## 12. Interest Charges

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

## 13. Operating Leases

Current annual operating lease rentals have been charged to revenue.

#### **14. Pensions**

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

##### **Teachers**

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

##### **Other employees**

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

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

#### **15. Public Private Partnership Schemes**

The accounting treatment of the Public Private Partnership for the provision of the Dalkeith Campus is in accordance with Financial Reporting Standard No. 5 – Reporting the Substance of Transactions, and Treasury Guidance.

# CONSOLIDATED REVENUE ACCOUNT

## For the year ended 31 March 2006

2004/05				2005/06
Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
79,686	Education	88,348	7,968	80,380
31,855	Social Work	49,539	13,301	36,238
9,888	Cultural and Related Services	14,303	3,351	10,952
8,504	Roads and Transportation Services	10,022	500	9,522
6,345	Police	7,106	0	7,106
5,551	Environmental Services	8,981	2,508	6,473
3,017	Planning and Development Services	5,694	2,250	3,444
1,997	Fire Services	2,097	0	2,097
(2,393)	Housing Revenue Account	10,497	12,428	(1,931)
412	Other Housing Services	13,982	12,582	1,400
1,414	Central Services to the Public	1,709	0	1,709
2,729	Corporate and Democratic Core	3,488	673	2,815
192	Non Distributable Costs	147	0	147
<b>149,197</b>	<b>Net Cost of Services</b>	<b>215,913</b>	<b>55,561</b>	<b>160,352</b>
(605)	Surplus on Statutory Trading Activities			(265)
1,195	Asset Management Revenue Account			1,811
(1,104)	Interest on Revenue Balances			(1,215)
338	Investment Losses			38
(256)	Investment Income			(120)
(816)	Pensions Interest Cost and Expected Return on Pensions Assets			862
<b>147,949</b>	<b>Net Operating Expenditure</b>			<b>161,463</b>
	<b>Appropriations</b>			
1,577	Contribution to/(from) HRA Reserve			1,154
(1,576)	Contribution to/(from) Capital Fund			(3,225)
288	Contribution to/(from) Insurance Reserve			0
(8,143)	Contribution to/(from) Capital Financing Account			(7,137)
626	Contribution to/(from) Pension Reserve			(434)
<b>140,721</b>	<b>Amount to be met from Government Grants and Local Taxation</b>			<b>151,821</b>
	<b>Sources of Finance</b>			
80,065	Revenue Support Grant		86,004	
30,132	Non Domestic Rate Income		29,839	
32,298	Council Tax & Community Charge Income		34,726	
<b>142,495</b>	<b>Total Revenue Financing</b>			<b>150,569</b>
<b>1,774</b>	<b>Net General Fund surplus / (deficit)</b>			<b>(1,252)</b>
8,396	Balance on General Fund Reserve brought forward			10,170
<b>10,170</b>	<b>Balance on General Fund Reserve carried forward</b>			<b>8,918</b>

## NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

### 1. Operating leases

The Council uses assets, principally vehicles, financed under the terms of an operating lease. The amount charged to the revenue account under these arrangements in the year was £0.601 million (2004/05 £1.403 million). Future cash payments under these leases total £1.133 million (2004/05 £1.349 million).

### 2. Publicity account (Section 5 of the Local Government Act 1986)

Under this section, the Council is required to maintain a separate publicity account. Certain items which are exempt expenditure but which cannot be separately identified, such as public notices for road closures and invitations to tender for contract work, are included in the following totals:

	Year to 31.3.06 £000	Year to 31.3.05 £000
Recruitment advertising	247	306
Other advertising	122	100
Other publicity	4	13
	<b>373</b>	<b>419</b>

### 3. Agency Services

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

The main items of agency expenditure and income were:

	Year to 31.3.06 £000	Year to 31.3.05 £000
<b>Expenditure</b>		
Payments to other local authorities for Social Work services for Midlothian clients	1,102	1,334
Payment to the City of Edinburgh Council for collection services	22	22
Other	114	65
	<b>1,238</b>	<b>1,421</b>
<b>Income</b>		
Income from other local authorities for Social Work services	103	312
Income from Scottish Water for collection services	188	270
	<b>291</b>	<b>582</b>

### 4. Pension Costs

#### Local Government Superannuation (Scotland) Scheme

The Consolidated Revenue Account reflects the requirements of The SORP.

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

	Year to 31.3.06 £000	Year to 31.3.05 £000
Service Costs	7,545	7,204
Past Service Costs	24	29
Curtailments	19	0
	<b>7,588</b>	<b>7,233</b>

Which as a percentage of payroll costs are:

	Year to 31.3.06	Year to 31.3.05
Service costs	19.0%	19.6%
Past Service Costs	0.1%	0.1%
Curtailments	0%	0%
	<b>19.1%</b>	<b>19.7%</b>

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

	Year to 31.3.06 £000	Year to 31.3.05 £000
Expected return on Employer assets	(11,038)	(10,138)
Interest on pension scheme liabilities	11,900	9,322
	<b>862</b>	<b>(816)</b>

Which as a percentage of payroll costs are:

	Year to 31.3.06	Year to 31.3.05
Expected return on Employer assets	(27.8%)	(27.6%)
Interest on pension scheme liabilities	30.0%	25.4%
	<b>2.2%</b>	<b>(2.2%)</b>

## 5. Pension Costs (continued)

Included within the appropriations section of the consolidated revenue account is a contribution of £(0.434) million (2003/04 £0.626 million) to / (from) the pension reserve. The net effect of these accounting entries is that expenditure met from government grants and local taxation equals the actual employer's contributions made to the Scheme of £8.016 million, representing 20.19% of pensionable pay (2004/05 £7.043 million or 19.2%).

Under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the Fund. The Fund's actuary reported that, at 31 March 2005, the funding level was 85% and that a period of 20 years had been adopted in assessing the level of contribution required to fund that deficiency. As a result, the effective employer's contribution is as follows:-

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

Ex gratia payments of £0.052 million representing 0.11% of pensionable pay were also made under Superannuation Regulations (2004/05 £0.049 million or 0.11%).

Additional disclosures in respect of Pensions are included in the notes to the Consolidated Balance Sheet. Further information regarding the Pension Fund can be found in Lothian Pension Fund's Annual Report which is available upon request from the Fund administrator, The City of Edinburgh Council.

In the year the Council paid an employer's contribution of £3.935 million (2004/05 £3.806 million) into the Teachers' pension scheme which is administered by the Scottish Executive. The rate of contribution was 12.5%.

## 6. Asset Management Revenue Account

The transactions during the year were as follows:

	<b>Year to 31.3.06 £000</b>	<b>Year to 31.3.05 £000</b>
<b>Income</b>		
Capital Charges for the use of Fixed Assets	19,297	17,999
Amortisation of Government Grants etc	1,046	2,081
<b>Total Income</b>	<b>20,343</b>	<b>20,080</b>
<b>Expenditure</b>	<b>£000</b>	<b>£000</b>
Depreciation	17,229	15,958
Loans Fund Interest & Expenses	4,925	5,317
<b>Total Expenditure</b>	<b>22,154</b>	<b>21,275</b>
<b>Total</b>	<b>1,811</b>	<b>1,195</b>

## 7. Members' Allowances

The total allowances and expenses paid to elected members during the year was £0.407 million (2004/05 £0.413 million).

## 8. Number of Employees

At the end of the year the Council had 3,492 Full Time Equivalent employees (2004/05 3,469).

## 9. Employees' Remuneration

The number of employees during the year whose remuneration was £40,000 or greater was as follows:

	<b>2005/06</b>	<b>2004/05</b>
£40,000 to £49,999	90	79
£50,000 to £59,999	15	14
£60,000 to £69,999	7	6
£70,000 to £79,999	0	2
£80,000 to £89,999	6	4
£90,000 to £99,999	1	1

## 10. Related Parties

During the year, the Council entered into a number of material transactions with related parties. The most material of these transactions, not disclosed elsewhere, are joint board requisitions:-

	<b>Year to 31.3.06 £000</b>	<b>Year to 31.3.05 £000</b>
Lothian and Borders Police Board	7,106	6,345
Lothian and Borders Fire Board	2,097	1,998
Lothian Valuation Board	516	509

### 11. Statutory Trading Accounts

The Local Government in Scotland Act 2003 repealed Compulsory Competitive Tendering and sets out a requirement for Statutory Trading Accounts to be maintained for Significant Trading Operations and that they should break even over a three year rolling period. The Council maintains Statutory Trading Accounts for the following three activities which it considers to be Significant Trading Operations. For the rolling period 2003/04 to 2005/06 each of the activities has achieved the required objective.

	Year to 31.3.06 £000's	Preceding Years £000's	Cumulative 3 year surplus £000's
<b>Building Maintenance</b>			
Turnover	6,011	9,785	
Surplus	95	248	343
<b>Roads Maintenance</b>			
Turnover	4,543	8,271	
Surplus/ (Deficit)	223	54	277
<b>Investment Properties</b>			
Turnover	781	1600	
Surplus	170	576	746

The surplus on Statutory Trading Activities identified on the Consolidated Revenue Account includes Building Maintenance and Investment Properties. In accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2005, Roads Maintenance is included within Net Cost of Services on the Consolidated Revenue Account as part of Roads and Transportation Services.

### 12. Public Private Partnership

The Council has entered into a Public Private Partnership for the provision and facilities management of the Dalkeith School Campus. When the agreement ends in 2034 the Campus facilities will transfer to the Council with a guaranteed maintenance free life of five years.

Under the agreement the Council paid £4.461 million in 2005/06 (2004/05 £4.436 million) and is committed to paying a further £137.805 million (in cash terms assuming a 2.5% increase in inflation index). This equates to £4.974 million per annum over the life of the contract.

In accordance with the relevant accounting standards £2.900 million (2004/05 £0.0 million) of the contractual payments have been recognised as a long term debtor, representing the proportion of the

contractual payments which are attributable to the asset which will transfer to Council Ownership at the end of the contract period.

### 13. Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice is £0.236 million (2004/05 £0.229 million). No fees were paid in respect of other services provided by the appointed auditor.

### 14. Equal Pay

Included in the Net Cost of Services is expenditure of £4.510 million (2004/05 £0.0 million) in respect of the anticipated costs of settling Equal Pay claims under the Equal Pay Act 1970.

# Housing Revenue Account

## For the year ended 31 March 2006

2004/05		2005/06	Per House per week
<b>£000</b>		<b>£000</b>	<b>£</b>
	<b>Expenditure</b>		
4,586	Repairs and Maintenance	5,511	16.85
2,661	Supervision and Management	3,106	9.49
355	Capital Financing costs	78	0.24
299	Bad or doubtful debts	210	0.64
1,504	Other Costs	1,615	4.94
(54)	Pensions Interest Cost and Expected Return on Pensions Assets	57	0.17
<b>9,351</b>	<b>Total</b>	<b>10,577</b>	<b>32.33</b>
	<b>Income</b>		
11,340	House rents (gross)	12,010	36.71
311	Other rents	338	1.03
10	Transfer from Pension reserve	80	0.24
267	Other income	303	0.93
<b>11,928</b>	<b>Total</b>	<b>12,731</b>	<b>38.91</b>
<b>2,577</b>	<b>Surplus/ (deficit) for the year</b>	<b>2,154</b>	<b>6.58</b>
3,029	Balance brought forward	4,606	14.08
(1,000)	Transfer to General Fund	(1,000)	(3.06)
<b>4,606</b>	<b>Balance carried forward</b>	<b>5,760</b>	<b>17.60</b>

### Notes

#### 1. General

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

#### 2. Housing Stock

At 31st March 2006 the Council had 6,225 houses (31 March 2005 6,381) which can be analysed as follows:

Type of Dwelling	2005/06	2004/05
1 / 2 Apartments	802	809
3 Apartments	3,530	3,611
4 Apartments	1,612	1,675
5 / 6 Apartments	281	286
<b>Total</b>	<b>6,225</b>	<b>6,381</b>

#### 3. Rent Arrears

At the end of the year rent arrears amounted to £1.397 million (2004/05 £1.246 million) for which a provision for bad and doubtful debts of £0.430 million (2004/05 £0.430 million) exists.

# Council Tax Income Account

For the year ended 31 March 2006

2004/05		2005/06
<b>£000</b>		<b>£000</b>
36,551	Income	38,364
	<b>Less:</b>	
3,684	Discounts	3,891
1,148	Provision for Bad Debts	1,032
(92)	Net cost of benefits	(81)
<b>31,811</b>		<b>33,522</b>
487	Previous years adjustments	1,204
<b>32,298</b>	<b>Net Income</b>	<b>34,726</b>

## Notes to the Council Tax Income Account

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

	Property Bands								
	A	B	C	D	E	F	G	H	Total
Properties	1,010	11,835	9,739	3,844	3,960	2,009	1,359	149	33,905
Disabled relief	60	(8)	(20)	(8)	(12)	(0)	(11)	(1)	0
<b>Less</b>									
Exemptions	60	327	218	57	59	18	24	3	766
Discounts (25%)	154	1,351	772	245	193	65	37	2	2,819
Discounts (50%)	4	17	13	7	1	3	4	0	49
Other Discounts	2	8	6	6	5	3	1	0	31
Effective properties	850	10,124	8,710	3,521	3,690	1,920	1,282	143	30,240
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D equivalents	567	7,874	7,742	3,521	4,510	2,773	2,137	286	29,410
Contributions in lieu – Band D equivalents									106
<b>Total</b>									<b>29,516</b>
Provision for non payment									(885)
<b>Council Tax Base</b>									<b>28,631</b>

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

Band	A	B	C	D	E	F	G	H	Total
No's	850	10,124	8,710	3,521	3,690	1,920	1,282	143	30,240
£	784.00	914.67	1,045.33	1,176.00	1,437.33	1,698.67	1,960.00	2,532.00	

The Local Government Finance Act 1992 introduced the Council Tax to replace the Community Charge from 1 April 1993. The level of tax depends upon the value of the property. Certain prescribed dwellings are exempt and discounts are given to eligible tax payers i.e. single occupants. A Council Tax benefit scheme operates to assist taxpayers on a low income.

# Non-Domestic Rate Income Account

## For the year ended 31 March 2006

2004/05		2005/06
<b>£000</b>		<b>£000</b>
23,493	Gross rates levied	24,429
4,556	Less: Reliefs and other deductions	4,984
5	Interest Paid	3
493	Provision for bad and doubtful debts	472
(165)	Previous Years' Adjustments	222
<b>18,274</b>	<b>Net non-domestic rate income</b>	<b>19,192</b>
	Allocated:	
18,336	National non-domestic rate pool	19,253
(62)	Midlothian Council	(61)
<b>18,274</b>		<b>19,192</b>

### Notes

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £29.900 million ( 2004/05 £30.194 million).
2. Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Midlothian. The non-domestic rate poundage is determined by the Scottish Executive, and was 46.1p per £, where the rateable value was less than or equal to £29,000 and 46.55p per £ where the rateable value exceeded £29,000. Properties which had a rateable value of £11,500 or less received a minimum Small Business Rate Relief of 5%.
3. Rateable Value as at the start of the year( comparatives in brackets)

	<b>Number</b>	<b>Rateable Value £000</b>
Shops, Offices and Other Commercial Subjects	1,434 (1,473)	31,206 (28,104)
Industrial and Freight Transport	786 (754)	12,642 (9,982)
Miscellaneous (Schools etc)	312 (308)	11,162 (10,130)
	<b>2,532 (2,535)</b>	<b>55,010 (48,216)</b>



## NOTES TO THE CONSOLIDATED BALANCE SHEET

### 1. Capital Expenditure

#### 1.1 Service Summary of Gross Capital Expenditure

2004/05 £000		2005/06 £000
	<b>General Fund Services:</b>	
1,351	Education	7,316
30	Social Work	226
1,300	Roads and Transportation Services	1,940
1,068	Planning and Development Services	1,084
211	Cultural and Related Services	2,517
6,668	Other Services	4,480
<b>10,628</b>	<b>General Fund Services Total</b>	<b>17,563</b>
<b>4,484</b>	<b>Housing Revenue Account</b>	<b>8,749</b>
<b>15,112</b>	<b>Total Capital Expenditure</b>	<b>26,312</b>

#### 1.2 Analysis of capital expenditure and capital financing

2004/05 £000		2005/06 £000
	<b>Gross Capital Expenditure</b>	
	<b>Fixed Assets:</b>	
3,150	Site and Building Acquisitions	6,175
6,680	Building Works	9,902
1,197	Road Works	2,123
1,650	Professional Fees	3,244
1,410	Vehicles and Plant	1,354
1,025	Other	614
<b>15,112</b>	<b>Fixed Assets Total</b>	<b>23,412</b>
0	Dalkeith Schools Campus Residual Asset	2,900
<b>15,112</b>	<b>Gross Capital Expenditure Total</b>	<b>26,312</b>
	<b>Capital Financing:</b>	
7,282	Capital Receipts - Sale of land and buildings	10,871
3,818	Government Grants	3,037
19	European Regional Development Fund	0
149	Contribution from Other Bodies	2,755
0	Other receipts	3
0	Revenue Contributions to Capital	2,900
3,844	Advances from Loans Fund	6,746
<b>15,112</b>	<b>Capital Financing Total</b>	<b>26,312</b>

## 2. Capital Receipts

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

2004/05 £000	Capital Receipts from the disposal of fixed assets	2005/06 £000
	Gross Capital Receipts during year:	
7,282	Sale of Council Houses	6,849
983	Other Land and Buildings	5,848
1	Rights over Land	3
18	Vehicles	0
<b>8,284</b>	<b>Gross Capital Receipts Total</b>	<b>12,700</b>
	Capital Receipts:	
7,282	Utilised in the year	10,875
1,002	Retained and transferred to the Capital Fund	1,825
<b>8,284</b>	<b>Capital Receipts Applied Total</b>	<b>12,700</b>

## 3. Related Companies

### Pacific Shelf 826 Limited

Midlothian Council is the sole shareholder in Pacific Shelf 826 Ltd, a company incorporated on 31 March 1999 and having its registered office at Midlothian House, Buccleuch Street, Dalkeith. The purpose of the company is to promote Economic Development. Provision has been made in the Consolidated Revenue Account in 2005/06 for the increase in the retained losses. The Council's shareholding comprises 100,000 £1 ordinary shares.

The most recent results of the company are as follows:

	Year to 31 March 2006 £000	Year to 31 March 2005 £000
Turnover	2	2
Loss	32	37
Retained losses	1,069	1,036
Net assets at end of year	(379)	(347)

### Shawfair Developments Limited

Midlothian Council has a 37.5% shareholding in Shawfair Developments Limited, having its registered office at City Chambers, High Street, Edinburgh. The purpose of the company is to provide a vehicle to develop its shareholders' interest in the South-East Wedge. The Council's shareholding comprises 150 £1 "A" shares.

The most recent results of the company are as follows:

	Year to 31 March 2006 £000	Year to 31 March 2005 £000
Turnover	0	0
Loss	187	75
Retained losses	1,756	1569
Net assets at end of year	(1,756)	(1,567)

#### 4. Long Term Investments

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

The Council's shareholding comprises 350,000 £1 ordinary shares.

The most recent results of the Company are as follows:

	Year to 31 December 2005	Year to 31 December 2004
	<b>£000</b>	<b>£000</b>
Turnover	75,683	73,499
Profit before taxation	16,271	3,529
Taxation	4,839	1,435
Profit after taxation	11,432	2,094
Ordinary dividend	2,198	2,198
Transfer to/(from) reserves	9,234	(104)
Net assets at end of year	22,919	(4,444)

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

#### 5. Long term borrowing

The Council's long term debt may be analysed as follows:

<b>Source of Loan</b>	Outstanding As at 31.3.2006	Outstanding As at 31.3.2005
	<b>£000</b>	<b>£000</b>
Public Works Loan Board	75,190	43,212
European Investment Bank	55	70
Market - Long Term	15,000	15,000
	<b>90,245</b>	<b>58,282</b>
<b>Analysis of loans by maturity within</b>		
1-2 years	40	39
2-5 years	3,101	115
5-10 years	15,791	8,592
Over 10 years	71,313	49,536
	<b>90,245</b>	<b>58,282</b>

## 6. Movement in Fixed Assets

	Houses £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Communit y Assets £000	Non Operational Assets £000	Total £000
<b>Gross Book value as at 31 March 2005</b>	<b>259,414</b>	<b>170,873</b>	<b>9,075</b>	<b>19,165</b>	<b>341</b>	<b>59,307</b>	<b>518,175</b>
Additions	5,251	2,169	3,753	3,334	3	8,903	23,413
Disposals	(5,863)		(115)	0	0	(5,833)	(11,811)
Revaluations and Restatements	49,870	8,713	(50)	0	(219)	(1,280)	57,034
<b>Gross Book value at 31 March 2006</b>	<b>308,672</b>	<b>181,755</b>	<b>12,663</b>	<b>22,499</b>	<b>125</b>	<b>61,097</b>	<b>586,811</b>
<b>Depreciation as at 31 March 2005</b>	<b>(2,778)</b>	<b>(17,404)</b>	<b>(2,086)</b>	<b>(5,655)</b>	<b>(36)</b>	<b>18</b>	<b>(27,941)</b>
Depreciation for the year	(6,196)	(7,667)	(2,068)	(1,290)	(7)	0	(17,228)
Write back depreciation on revalued assets	5,606	2,696	96	0	14	(20)	8,392
<b>Depreciation as at 31 March 2006</b>	<b>(3,368)</b>	<b>(22,375)</b>	<b>(4,058)</b>	<b>(6,945)</b>	<b>(29)</b>	<b>(2)</b>	<b>(36,777)</b>
<b>Net book value as at 31 March 2005</b>	<b>256,636</b>	<b>153,469</b>	<b>6,989</b>	<b>13,510</b>	<b>305</b>	<b>59,325</b>	<b>490,234</b>
<b>Net book value as at 31 March 2006</b>	<b>305,304</b>	<b>159,380</b>	<b>8,605</b>	<b>15,554</b>	<b>96</b>	<b>61,095</b>	<b>550,034</b>

## 7. Fixed Asset Valuation

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

	Houses £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Communit y Assets £000	Non Operational Assets £000	Total £000
Valued at Historic Cost	5,251	2,223	12,662	22,499	126	12,289	55,050
Valued at Current Value in:-							
2005/06	303,421	23,136	0	0	0	5,220	331,777
2004/05	0	38,408	0	0	0	14,678	53,086
2003/04	0	89,576	0	0	0	27,261	116,837
2002/03	0	28,044	0	0	0	1,592	29,636
2001/02	0	367	0	0	0	58	425
<b>Total</b>	<b>308,672</b>	<b>181,754</b>	<b>12,662</b>	<b>22,499</b>	<b>126</b>	<b>61,098</b>	<b>586,811</b>

## 7. Fixed Asset Valuation (continued)

For properties there is a rolling programme of revaluation with assets revalued on a five-year cycle as detailed above. The valuations are carried out by the Council's Principal Estates Surveyor, a professional member of the Royal Institution of Chartered Surveyors (RICS).

Properties have been valued in accordance with CIPFA guidance and the Statement of Asset Valuation Principles and Guidance notes of the RICS.

Valuations were carried out at 1<sup>st</sup> April 2005 giving a total revaluation of £65.426 million.

Land, housing stock, operational and non-operational properties have been valued on the basis of net realisable value in existing use or at net current replacement cost.

Community and infrastructure assets are stated on the basis of debt outstanding as at 31 March 2006 as a proxy for depreciated historic cost.

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

Depreciation charges have been calculated on a straight line basis for all operational assets with a finite useful life. The range of useful lives for each class of asset is as follows: Housing stock (50 years), Community assets (0 to 50 years), Infrastructure (15 years), Non operational assets (0 to 75 years), Operational assets (0 to 50 years).

The provision for depreciation at the year end was £36.777 million (2004/05 £27.941 million). There is no provision for impairment.

## 8. Commitments under Capital Contracts

At the end of the year, the Council was contractually committed to capital works, which amounted to approximately £15.525 million (2004/05 £2.670 million).

## 9. Analysis of net assets employed

	2005/06	2004/05
	£000	£000
General Fund	94,920	86,480
Housing Revenue Account	305,491	252,601
Capital Fund	0	1,425
	<b>400,411</b>	<b>340,506</b>

## 10. Information on assets held

	As at March 2006	As at March 2005
<b>Council Houses</b>	<b>6,225</b>	<b>6,381</b>
<b>Operational Buildings</b>		
- Social Work Homes etc	11	11
- Leisure Centres	12	12
- Libraries	9	9
- Nursery Schools	6	7
- Primary Schools	35	36
- Secondary Schools	4	4
- Offices	23	23
- Depots	5	6
- Car Parks	10	9
<b>Operational Equipment</b>		
- Vehicles & Plant	352	299
<b>Infrastructure Assets</b>		
- Highways (km)	636	635
- Bridges	208	207
- Footpaths (km)	627	627
<b>Community Assets</b>		
Parks	43	43
Cemeteries	28	28

## 11. Provisions for Bad and Doubtful Debts

The total cumulative provisions are as below. In general the movements in provisions during the year reflect increases in respect of charges levied but not paid during the year and reductions in respect of previous years' debts now paid.

	As at 31.3.05 £000	Movement in the year £000	As at 31.3.06 £000
Community Charge	9,615	(299)	9,316
Council Tax	9,284	(145)	9,139
Council Tax Penalties	1,206	87	1,293
Non Domestic Rates	1,316	52	1,368
House Rents	430	0	430
Other Debtors	551	0	551
	<b>22,402</b>	<b>(305)</b>	<b>22,097</b>

## 12. Other Provisions

A provision of £0.482 million (2004/05 £0.374 million) in respect of the self insured element of public and employers' liability claims and a provision of £0.376 million (2004/05 £0.338 million) in respect of accumulated losses of subsidiaries.

### 13. Reserves

The main Reserves and Funds are as follows:

Fixed Asset Restatement Account - £400.474 million (2004/05 £346.859 million) - Set up under the system of capital accounting. This account is not available for use.

Capital Financing Account - £45.977 million (2004/05 £42.139 million) - set up under the system of capital accounting. This account is not available for use.

Pension Reserve - £(61.720) million (2004/05 £(65.702) million) – set up in accordance with the requirements of Financial Reporting Standard No 17 – Retirement Benefits (FRS 17). This reserve is not available for use.

Insurance Fund - £1.003 million (2004/05 £1.009 million) – This fund is earmarked for insurance purposes.

Capital Fund - £0.000 million (2004/05 £1.425 million) - Maintained in terms of Local Government (Scotland) Act 1975 to assist in defraying capital expenditure.

Housing Revenue Account Reserve - £5.759 million (2004/05 £4.606 million) - Represents the accumulated balance on the Housing Revenue Account at 31 March 2006.

General Fund Reserve- £8.918 million (2004/05 £10.170 million) - Represents the accumulated balance on Midlothian Council Revenue Account at 31 March 2006.

### 14. Midlothian Council Trusts and Bequests

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

The main funds are:	As at 31.3.06 £000	As at 31.3.05 £000
Dalkeith Common Good	88	103
Penicuik Common Good	8	7
Community Mining Funds	155	151
Other Funds	73	71
<b>Total</b>	<b>324</b>	<b>332</b>

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

### 15. Devolved School Management

The net amount of unspent balances held by schools under the scheme is £0.363 million (2004/05 £0.758 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

### 16. Retirement Benefits

In accordance with Financial Reporting Standard No 17 – Retirement Benefits (FRS 17), the Council is required to disclose certain information concerning assets, liabilities, income and expenditure related to pension schemes for its employees. As explained in the Accounting Policies the Council participates in two formal schemes, the Local Government Superannuation Scheme, which is administered by the Lothian Pension Fund and the Teachers' Scheme. The Council is not required to record information related to the Teachers' Scheme as the liability for payment of pensions rests ultimately with the Scottish Executive.

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

	As at 31.3.06 £000's	As at 31.3.05 £000's
Estimated employer assets	200,790	152,817
Present value of scheme liabilities	(248,930)	(206,851)
Present value of unfunded liabilities	(13,580)	(11,668)
Net pension liabilities	<b>(61,720)</b>	<b>(65,702)</b>

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

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

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

Assets are valued at fair value, principally market value for investments and consist of:				<b>Year to</b>	<b>Year to</b>
				<b>31.3.06</b>	<b>31.3.05</b>
				<b>£000's</b>	<b>£000's</b>
		<b>Long</b>			
	<b>% of</b>		<b>Term</b>		
<b>Class of Asset</b>	<b>Fund</b>	<b>£000's</b>	<b>Return</b>		
Equities	81.9%	164,510	7.4%	Actual less expected return on scheme assets	4,649
Bonds	5.9%	11,840	4.6%	Value of assets	152,817
Property	10.7%	21,450	5.5%	<b>Percentage of assets</b>	<b>3.0%</b>
Cash	1.5%	2,990	4.6%	Gains / (Losses) on scheme liabilities	(955)
		<b>200,790</b>	<b>7.0%</b>	Present value of liabilities	218,519

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

	<b>2005/06</b>	<b>2004/05</b>
Price increases	3.1%	2.9%
Salary increases	4.6%	4.4%
Pension increases	3.1%	2.9%
Discount rate	4.9%	5.4%

The net pension liability of £61.720 million (2004/05 £65.702 million) exceeds useable reserves of £15.680 million by £46.040 million (2004/05 £48.492 million). The actuarial valuation considers the appropriate employers' rates and this together with the revenues generated from the investments will be utilised to meet the fund's commitments.

Movement in deficit during the year

	<b>Year to</b>	<b>Year to</b>
	<b>31.3.06</b>	<b>31.3.05</b>
	<b>£000's</b>	<b>£000's</b>
<b>Deficit at start of year</b>	<b>(65,702)</b>	<b>(32,418)</b>
Current service costs	(7,545)	(7,204)
Employers' contributions	8,016	7,043
Past service costs	(24)	(29)
Impact of curtailments	(19)	0
Net return on assets	(862)	816
Actual less expected return on scheme assets	31,861	4,649
Gains / (Losses) on scheme liabilities	1,266	(955)
Changes in the financial assumptions underlying the present value of the scheme liabilities	(28,711)	(37,604)
<b>Deficit at end of year</b>	<b>(61,720)</b>	<b>(65,702)</b>

History of gains and losses

Actual less expected return on scheme assets	31,861	4,649
Value of assets	200,785	152,817
<b>Percentage of assets</b>	<b>15.9%</b>	<b>3.0%</b>
Gains / (Losses) on scheme liabilities	1,266	(955)
Present value of liabilities	262,508	218,519
<b>Percentage of present value of liabilities</b>	<b>0.5%</b>	<b>(0.4%)</b>
Actuarial gains(losses)	4,416	(33,910)
Present value of liabilities	262,508	218,519
<b>Percentage of present value of liabilities</b>	<b>1.7%</b>	<b>(15.5%)</b>

Additional disclosures in respect of Pensions are included in the notes to the Consolidated Revenue Account and the Statement of Total Movements in Reserves.

#### 17. Finance Leases

There are no finance leases included in the balance sheet at 31 March 2006.

#### 18. Related Parties

Creditors within the Consolidated Balance Sheet include £0.792 million (2004/05 £0.722 million) due to Lothian Pension Fund.

#### 19. Euro Costs

During the year the Council continued to monitor the impact of the possible introduction of the Euro on the delivery of its services, its financial information systems, and its stakeholders. A cost assessment has not been made, nor have any costs been incurred, at this stage.

#### 20. Long Term Debtors

Long Term Debtors within the Consolidated Balance Sheet include £2.900 million (2004/05 £0.0 million) in respect of the element of the annual payment for the Dalkeith Schools PPP Contract which is, in effect, payment for the assets. The current value of which is estimated at £35.000 million and transfers to the Council at the end of the contract period.

#### 21. Events after the balance sheet date

There were no events that occurred between 1st April 2006 and 8<sup>th</sup> June 2006 that would have an impact on the financial statements. The latter date is the date in which the accounts were authorised for issue by the Director Corporate Services.

# CASH FLOW STATEMENT

## For the year ended 31 March 2006

	<b>2004/05</b>		<b>2005/06</b>
<b>£000</b>	<b>£000</b>	<b>Revenue Activities</b>	<b>£000</b>
		<b>Cash Outflows</b>	
97,664		Cash paid to and on behalf of employees	105,031
83,947		Other operating costs	86,642
6,327		Housing benefit paid out	6,856
17,241	205,179	Non-domestic rate payment to national pool	18,807
		<b>Cash Inflows</b>	
7,160		House Rents	6,901
28,207		Council Tax and Community Charge	30,131
30,194		Non-domestic rate receipts from national pool	29,900
17,263		Non-domestic rates	19,279
80,933		Revenue support grant	86,133
15,961		DWP Housing Benefit grants	16,343
14,379		Other government grants	15,221
10,524		Cash received for goods and services	10,764
12,943	(217,564)	Other operating cash receipts	9,658
	<b>(12,385)</b>	<b>Net Cash Inflow on Revenue Activities</b>	<b>(224,330)</b>
		<b>Returns on Investments and Servicing of Finance</b>	
	5,056	Expenditure – Interest paid	4,137
	(553)	Income – Interest received	(790)
		<b>Capital Activities</b>	
		<b>Cash Outflows</b>	
	14,743	Capital Expenditure on Assets	24,814
		<b>Cash Inflows</b>	
8,316		Sale of Fixed Assets	13,920
3,636		Capital Grants Received	5,103
149		Other Capital Cash Receipts	3
	<b>(12,101)</b>	<b>Net Cash Inflow on Capital Activities</b>	<b>(19,026)</b>
	<b>(5,240)</b>	<b>Net Cash (Inflows)/Outflow Before Financing</b>	<b>2,141</b>
		<b>Management of Liquid Resources</b>	
	0	Net increase/ (decrease) in short term deposits	0
		<b>Financing</b>	
		<b>Cash Outflows</b>	
	95,461	Expenditure - Repayments of amounts borrowed	27,828
		<b>Cash Inflows</b>	
	(86,898)	Income – New loans raised	(48,893)
	<b>3,323</b>	<b>(Increase)/Decrease in Cash</b>	<b>(18,924)</b>

## NOTES TO THE CASH FLOW STATEMENT

### 1. Reconciliation of the consolidated revenue account surplus to the net revenue activity cash flow

	£000	£000	£000
Surplus on Consolidated Revenue Account			1,252
Non cash items:			
Contributions from Reserves		2,072	
Contribution to Capital		(2,900)	
Net Interest Payable		(3,576)	
Depreciation		(17,229)	
Adjustments not involving movement in funds		10,211	
Movement in Stocks		(189)	
Movements in Net Debtors		8,238	
Movement in Creditors		(4,727)	
Movement in Other Provisions		(146)	
			(8,246)
<b>Net Cash inflow from Revenue Activities</b>			<b>(6,994)</b>

### 2 Reconciliation of the movement in cash to the movement in Net Debt

Decrease in Cash and Bank in year			(18,925)
Increase in Liquid Resources			0
Increase in Debt in year			21,066
Increase in Net Debt in year			<b>2,141</b>

<b>Analysis of Net Debt</b>	31.03.05	31.03.06	Movement
Cash and Bank	(6,774)	(26,569)	(19,795)
Short Term Borrowing	13,376	2,479	(10,897)
Bank Overdraft	779	1,649	870
Long Term Borrowing	58,282	90,245	31,963
<b>Total Debt</b>	<b>65,663</b>	<b>67,804</b>	<b>2,141</b>

3 <b>Management of Financing</b>	31.03.05	31.03.06	Movement
Short Term Borrowing	13,376	2,479	(10,897)
PWLB Loans	43,213	75,175	31,962
Long Term – Market	15,000	15,000	0
European Investment Bank	69	69	0
<b>Net Financing – per Cash Flow Statement</b>	<b>71,658</b>	<b>92,723</b>	<b>21,065</b>

### 4 Analysis of Government Grants

Revenue Support Grant			86,133
DWP Benefit Subsidy			16,343
Other Government Grants:			
Criminal Justice		688	
Supporting People		5,616	
Changing Children’s Services Fund		981	
Mental Illness		266	
Sheltered Employment		40	
Employment Initiatives		921	
Rural Transport		70	
Education Grants		5,238	
Other Grants		1401	15,221
			<b>117,697</b>

## STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	General Fund Reserve £000	Housing Revenue Account Reserve £000	Capital Fund £000	Insurance Fund £000	Fixed Asset Restatement Account £000	Capital Financing Account £000	Capital Receipt Reserve £000	Pension Reserve £000
<b>Balance as at 31 March 2005</b>	<b>10,170</b>	<b>4,606</b>	<b>1,425</b>	<b>1,009</b>	<b>346,859</b>	<b>42,139</b>	<b>0</b>	<b>(65,702)</b>
Surplus/(Deficit) for Year	(13,941)	1,931		(73)				
Movement on Pension Reserve	434							(434)
Actuarial Gains/(Losses)								4,416
Disposal of Fixed Assets					(11,811)		12,700	
Transfer to capital financing account						10,875	(10,875)	
Interest on Revenue Balances	993	222	(25)	67				
Contributions to/(from) Funds	4,225	(1,000)	(1,400)				(1,825)	
Revaluation of assets					57,034			
Write Back of Depreciation on Revalued Assets					8,392			
Financing of assets	8,083					(8,083)		
Amortisation of Government Grants and Contributions	(1,046)					1,046		
<b>Balance as at 31 March 2006</b>	<b>8,918</b>	<b>5,759</b>	<b>0</b>	<b>1,003</b>	<b>400,474</b>	<b>45,977</b>	<b>0</b>	<b>(61,720)</b>

# GROUP INCOME & EXPENDITURE ACCOUNT

For the year ended 31 March 2006

2004/05 Net Expenditure £000		Gross Expenditure £000	Gross Income £000	2005/06 Net Expenditure £000
74,842	Education	83,015	7,968	75,047
31,662	Social Work	49,349	13,301	36,048
9,089	Cultural and Related Services	13,391	3,351	10,040
7,851	Roads and Transportation Services	9,213	500	8,713
6,345	Police	7,106	0	7,106
5,494	Environmental Services	8,614	2,508	6,106
1,877	Planning and Development Services	4,978	2,250	2,728
1,998	Fire Services	2,097	0	2,097
(2,918)	Housing Revenue Account	10,360	12,428	(2,068)
219	Other Housing Services	13,982	12,582	1,400
987	Central Services to the Public	1,182	0	1,182
2,729	Corporate and Democratic Core	3,489	673	2,816
264	Non Distributable Costs	163	0	163
<b>140,439</b>	<b>Net Cost of General Fund Services</b>	<b>206,939</b>	<b>55,561</b>	<b>151,378</b>
3,073	Share of Operating Results of Associates			3,261
(1,520)	Profit/(Loss) on Disposal of Assets			27
<b>141,992</b>	<b>Net Cost of Services</b>			<b>154,666</b>
(876)	Surplus on Statutory Trading Activities			(709)
5,352	Interest Payable			4,966
227	Share of Interest Payable of Associates			197
(1,441)	Interest and Investment Income			(1,413)
301	Investment Losses			0
(816)	Pensions Interest Cost and Expected Return on Pensions Assets			862
4,004	Share of Pensions Interest Cost and Expected Return on Pensions Assets of Associates			5,336
<b>148,743</b>	<b>Net Operating Expenditure</b>			<b>163,905</b>
	<b>Appropriations</b>			
1,577	Contribution to/(from) HRA			1,154
(1,576)	Contribution to/(from) Capital Fund			(3,225)
288	Contribution to/(from) Insurance Reserve			0
(1,641)	Contribution to/(from) Capital Financing Account			(774)
626	Contribution to/(from) Pension Reserve			(434)
(7,307)	Share of Contribution to/(from) Associates Pension Reserves			(8,730)
0	Share of Contribution to/(from) Subsidiary Reserves			6
68	Share of Contribution to/(from) Associate Reserves			(73)
(57)	Contribution to/(from) Trust and Bequest Reserves			(8)
	<b>Amount to be met from Government</b>			
<b>140,721</b>	<b>Grants and Local Taxation</b>			<b>151,821</b>
	<b>Sources of Finance</b>			
80,065	Revenue Support Grant		86,004	
30,132	Non Domestic Rate Income		29,839	
32,298	Council Tax & Community Charge Income		34,726	
<b>142,495</b>	<b>Total Revenue Financing</b>			<b>150,569</b>
<b>1,774</b>	<b>Net General Fund surplus / (deficit)</b>			<b>(1,252)</b>
8,396	Balance on General Fund Reserve brought forward			10,170
<b>10,170</b>	<b>Balance on General Fund Reserve carried forward</b>			<b>8,918</b>

## Group Balance Sheet as at 31 March 2006

As at 31 March 2005			As at 31 March 2006	
£000	£000		£000	£000
		<b>Fixed Assets</b>		
		Operational assets		
256,636		- Council dwellings	305,304	
153,469		- Other land and buildings	159,380	
6,989		- Vehicles, plant and equipment	8,605	
13,510		- Infrastructure assets	15,554	
305		- Community assets	96	
	430,909			488,939
	59,325	Non operational assets		61,095
	350	Long term investments		350
	(96,317)	Share of net assets of Associates		(114,268)
	5	Long term debtors		2,903
	<b>394,272</b>	<b>Total Long Term Assets</b>		<b>439,019</b>
		<b>Current Assets</b>		
658		Stocks	469	
		Debtors	41,531	
15,068		Less: Provision for bad and doubtful debts	22,097	19,434
6,774		Cash and Bank	26,569	
	22,500			46,472
		<b>Current Liabilities</b>		
		Borrowing repayable on demand or within 12 months	2,479	
13,376		Creditors	23,234	
19,275		Bank overdraft	1,649	
779				27,362
	33,430			
	<b>383,342</b>	<b>Total Assets less Current Liabilities</b>		<b>458,129</b>
		Borrowing repayable within a period in excess of 12 months		90,245
58,282		Government and other grants deferred account		19,218
14,472		Liability related to defined benefit pension schemes		61,720
65,702		Other provisions		482
374				
	<b>244,512</b>	<b>Total Assets less Liabilities</b>		<b>286,464</b>
346,859		Fixed Asset Restatement Account		400,474
42,139		Capital Financing Account		45,977
(65,702)		Pension Reserve		(61,720)
1,009		Insurance Fund		1,003
1,425		Capital Fund		0
4,606		Housing Revenue Account Reserve		5,759
10,170		General Fund Reserve		8,918
666		Share of Group Realisable Reserves		402
3,627		Share of Group Non Realisable Reserves		3,709
(100,619)		Share of Associate's Pension Reserves		(118,382)
332		Trusts and Bequests		324
	<b>244,512</b>	<b>Total Equity</b>		<b>286,464</b>

These Statements of Accounts present fairly the financial position of the Group at 31 March 2006 and its income and expenditure for the year then ended.

Signed :

Ian Jackson Director Corporate Services

8<sup>th</sup> June 2006

# GROUP CASH FLOW STATEMENT

## For the year ended 31 March 2006

	2004/05		2005/06
£000	£000		£000
		<b>Revenue Activities</b>	
		<b>Cash Outflows</b>	
97,664		Cash paid to and on behalf of employees	105,031
83,950		Other operating costs	86,631
6,327		Housing benefit paid out	6,856
17,241	205,182	Non-domestic rate payment to national pool	18,807
		<b>Cash Inflows</b>	
7,160		House Rents	6,901
28,207		Council Tax and Community Charge	30,131
30,194		Non-domestic rate receipts from national pool	29,900
17,263		Non-domestic rates	19,279
80,933		Revenue support grant	86,133
15,961		DWP Housing Benefit grants	16,343
14,379		Other government grants	15,221
10,524		Cash received for goods and services	10,764
12,943	(217,564)	Other operating cash receipts	9,657
	<b>(12,382)</b>	<b>Net Cash Inflow on Revenue Activities</b>	<b>(224,329)</b>
		<b>Returns on Investments and Servicing of Finance</b>	
	5,091	Expenditure – Interest paid	4,179
	(553)	Income – Interest received	(790)
		<b>Capital Activities</b>	
		<b>Cash Outflows</b>	
	14,743	Capital Expenditure on Assets	24,814
		<b>Cash Inflows</b>	
8,316		Sale of Fixed Assets	13,920
3,636		Capital Grants Received	5,103
149		Other Capital Cash Receipts	4
	<b>(12,101)</b>	<b>Net Cash Inflows on Capital Activities</b>	<b>(19,027)</b>
	<b>(5,202)</b>	<b>Net Cash (Inflow)/Outflow Before Financing</b>	<b>2,172</b>
		<b>Management of Liquid Resources</b>	
	0	Net increase/ (decrease) in short term deposits	0
		<b>Financing</b>	
		<b>Cash Outflows</b>	
	95,461	Expenditure - Repayments of amounts borrowed	27,828
		<b>Cash Inflows</b>	
	(86,898)	Income – New loans raised	(48,893)
	<b>3,361</b>	<b>(Increase)/Decrease in Cash</b>	<b>(18,893)</b>

## GROUP STATEMENT OF TOTAL MOVEMENTS IN RESERVES

### Realisable Reserves

	General Fund Reserve	Housing Revenue Account Reserve	Capital Fund	Insurance Fund	Share of Group Realisable Reserves	Trusts & Bequests
	£000	£000	£000	£000	£000	£000
<b>Balance as at 31 March 2005</b>	<b>10,170</b>	<b>4,606</b>	<b>1,425</b>	<b>1,009</b>	<b>665</b>	<b>332</b>
Surplus/Deficit for the year	(5,911)	2,153	(25)	(6)	(72)	(8)
Appropriations	4,659	(1,000)	(1,400)		(191)	
<b>Balance as at 31 March 2006</b>	<b>8,918</b>	<b>5,759</b>	<b>0</b>	<b>1,003</b>	<b>402</b>	<b>324</b>

### Non Realisable Reserves

	Fixed Asset Restatement Account	Capital Financing Account	Capital Receipts Reserve	Pension Reserve	Share of Associates Pension Reserves	Share of Group Non Realisable Reserves
	£000	£000	£000	£000	£000	£000
<b>Balance as at 31 March 2005</b>	<b>346,859</b>	<b>42,139</b>		<b>(65,702)</b>	<b>(100,619)</b>	<b>3,628</b>
Appropriations		10,875	(12,700)	(434)	(6,234)	81
Effects of disposal of Fixed Assets	(3,419)		12,700			
Revaluation of Fixed Assets	57,034					
Appropriations						
Financing of Fixed Assets		(7,037)				
Actuarial Gains/Losses				4,416	(11,529)	
<b>Balance as at 31 March 2006</b>	<b>400,474</b>	<b>45,977</b>	<b>0</b>	<b>(61,720)</b>	<b>( 118,382)</b>	<b>3,709</b>

# Notes to The Group Accounts

## 1. The Group

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

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

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

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

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

## 2. Financial Impact of Consolidation

The effect of inclusion of the subsidiary and associates on the group balance sheet is to decrease the net assets and total equity by £113.947 million, the principal reason for the change being the Council's share of the deficit on the associates' Pension Reserves.

## 3. Reporting Authority Adjustments to align with UK GAAP

A number of adjustments are required to enable the details contained within the Council's Consolidated Revenue Account to align with the UK GAAP requirements for Group Accounting arrangements. These can be summarised as follows:

- The inclusion of the Trust and Bequest reserves of £0.324 million within total equity.
- The notional interest rate applied by local authorities to account for the "economic" costs of tying up capital in fixed assets has been removed from the net cost of service analysis.
- The loss on the disposal of assets to a net value of £0.027 million has now been included within net operating expenditure.
- Capital grants amortised to services to the value of £1.045 million have now been included within individual services' net cost of service analysis.
- The overall impact on the Asset Management Revenue Account is the removal of all entries except external interest payable which now features on the face of the Group Revenue Account.
- All intra-group transactions have been removed from the Group Accounts as part of the consolidation process.

## 4. Group Cash Flow Statement

The overall net surplus for the year of £1.252 million can be reconciled to the operating activities net cash inflow of £7.192 million as follows:-

	<b>£000</b>
Deficit on Consolidated Revenue Account	1,252
Non cash items:	
Contributions from Reserves	2,140
Contribution from Capital	(2,900)
Net Interest Payable	(3,618)
Depreciation	(17,228)
Adjustments not involving movement in funds	10,211
Movement in Stocks	(189)
Movements in Net Debtors	7,416
Movement in Creditors	(3,980)
Movement in Other Provisions	(108)
	(8,256)
<b>Net Cash inflow from Revenue Activities</b>	<b>(7,004)</b>

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, and so they are not replicated here.

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## **The Authority's Responsibilities**

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director Corporate Services.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

## **The Director Corporate Services' Responsibilities**

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

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

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

The Director Corporate Services has also:

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

These Statements of Accounts present fairly the financial position of the Council at 31 March 2006 and its income and expenditure for the year then ended.

**Signed :**

**Ian Jackson**  
**Director Corporate Services**  
**8<sup>th</sup> June 2006**

# Statement of Corporate Governance

Midlothian Council is responsible for ensuring that its business is conducted:-

- In accordance with the law and proper standards.
- So that public money is safeguarded and properly accounted for.
- So that public money is used economically, efficiently and effectively.
- So that the statutory duties of best value and community planning are complied with.

In discharging this accountability, Elected Members and Senior Management are responsible for putting in place proper arrangements for the governance of Midlothian's affairs and making the best use of resources at its disposal. To this end Midlothian Council has approved and adopted a local code of corporate governance, which is consistent with the principles and reflects the requirements of:-

- the CIPFA/SOLACE Framework '*Corporate Governance in Local Government: A Keystone for Community Governance*' and
- the new guide of the Independent Commission on Corporate Governance in the Public Services called '*The Good Governance Standard for Public Services*'

A copy of the local code is available on request from the office of the Director Corporate Services, Midlothian House, Buccleuch Street, Dalkeith, Midlothian, EH22 1DN or can be viewed on the Council's website [www.midlothian.gov.uk](http://www.midlothian.gov.uk)

By adopting corporate governance principles Midlothian Council has also approved an assurance system covering financial and non financial matters and which supports this statement and provides assurance internally to Elected Members and the Corporate Management Team but also externally to interested parties and the general public.

In governing its business affairs Midlothian Council is particularly aware of the need for a sound system of internal control. Financial matters are contained within the Local Code of Corporate Governance and should give reasonable, but not absolute, assurances that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely period.

Last year the assurance system highlighted that the majority of the features were working correctly but we acknowledged that further work was required, some of which have now been progressed to a satisfactory state, and others which are ongoing as detailed below:-

Governance improvements in 2005/06

- We have embedded 'Audit Committee Principles' within the remit of the Performance Review Committee.
- The Local Code of Corporate Governance was updated and placed in public view.
- Year two of the implementation of a Council wide risk management regime was a success as highlighted in an independent internal audit report.
- Performance management arrangements have been put in place, with comprehensive quarterly performance reports scrutinised by the Performance Review Committee.
- The initial phases of compliance with the Civil Contingencies Act 2004 (Scotland) Regulations 2005 were completed.
- We put in place a Corporate and Financial Planning process for 2006/07 and have further developed this for 2007/08. This encompasses the continuous improvements of the corporate and service planning process and develops the links between financial planning and service plans and objectives.

Governance issues still ongoing in 2006/07:-

- Year three of the risk management strategy (Risk Strategy 2006).
- Further develop asset management planning and continuing improvements in capital planning, project management and control of capital expenditure.

- Further progress in compliance with the Department for Work and Pensions Performance Standards.

## **Statement of Corporate Governance (Cont.)**

- Following the initial stages of compliance with the Civil Contingencies Act, develop Divisional and Generic Business Continuity Plans.
- Further development of the statutory Best Value agenda leading into the review by Audit Scotland in the autumn 2006.
- Embedding personal development planning and management training. The Council has as a priority to have personal development planning in place for all employees by April 2007.
- The Council has appointed a dedicated Procurement Officer, has approved a procurement strategy, and has incorporated robust procurement procedures within its financial regulations. A comprehensive procurement manual is being prepared and this will support improvements in procurement arrangements and in turn deliver efficiencies in the procurement of goods and services.
- Introducing the new corporate system and procedures for improving our approach to *'Following the Public Pound'*.
- Work continues to address the specific weaknesses identified in budgetary control and financial management arrangements, within the Social Work, Education and Commercial Services Divisions to ensure that that highest standards of financial stewardship are achieved.
- Continue to address the weaknesses identified in systems and procedures to ensure that operational and strategic risks are minimised.
- Developing a fuller annual opinion on the Internal Control system by the Audit Manager in particular on the Audit Strategy for the year, the key findings and major issues arising and where the Council needs to improve its internal control.
- Ensuring that a new Internal Control Guideline is distributed to relevant officers along with training.

Governance issues arising at the start of 2006/07:-

The review of assurance and other arrangements has identified that further work is also required on the following items:-

- The Strategy, Guidelines and Improvement Plan for the new Counter Fraud and Corruption Policy need to be managed into place.
- The I.T. Security Policy and compliance with ISO17799 principles has raised the issues of (a) growing compliance with Data Protection, Freedom of Information, Human Rights Act etc and our approach needs to be strengthened and (b) our approach to applications access, especially remote working, requires review.
- Enhancing the role of the Community Planning Partnership as the key partnership for the Midlothian Community.
- Introducing a corporate Project Management methodology which can be applied to most projects.
- Improvements in the Governance of our Strategic Partnerships.

On the basis of the elements of Corporate Governance at our disposal, we are satisfied that overall Midlothian's Corporate Governance arrangements are of a satisfactory standard. We will endeavour in the next year to take steps to address, through appropriate action plans, the above matters to continue to advance our corporate governance arrangements.

**Signed :**

**Adam Montgomery**  
**Leader of the Council**  
**8<sup>th</sup> June 2006**

**Trevor Muir**  
**Chief Executive**  
**8<sup>th</sup> June 2006**

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

I certify that I have audited the financial statements of Midlothian Council for the year ended 31 March 2006 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Consolidated Revenue Account, the Housing Revenue Account, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Consolidated Balance Sheet, the Cash Flow Statement, the Statement of Total Movements in Reserves, and Group Accounts and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and the Code of Audit Practice approved by the Accounts Commission and for no other purpose as set out in paragraph 43 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by Audit Scotland, dated July 2001.

### **Respective responsibilities of the Director Corporate Services and auditor**

The Director Corporate Services' responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2005 - A Statement of Recommended Practice (the 2005 SORP) are set out in the Statement of Responsibilities.

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

I report my opinion as to whether the financial statements present fairly the financial position of Midlothian Council in accordance with applicable laws and regulations and the 2005 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement of Corporate Governance reflects the authority's compliance with the SORP. I report if, in my opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risk and controls. Neither am I required to form an opinion on the effectiveness of Midlothian Council's corporate governance procedures or its risk and control procedures.

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

### **Basis of audit opinion**

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Director Corporate Services in the preparation of the financial statements, and of whether the

accounting policies are appropriate to Midlothian Council's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In my opinion

- the financial statements present fairly, in accordance with applicable laws and regulations and the 2005 SORP, the financial position of Midlothian Council as at 31 March 2006 and its income and expenditure for the year then ended; and
- the financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Mark Taylor CPFA, Assistant Director  
Audit Scotland – Audit Services  
Osborne house, 1/5 Osborne Terrace  
Edinburgh, EH12 5HG

**29 September 2006**

## **PROVOST'S CERTIFICATE**

In terms of Regulation 4 of the Local Authority Accounts (Scotland) Regulations 1985, this copy of The Midlothian Council Abstract of Accounts for the year ended 31 March 2006 was today submitted to the meeting of Midlothian Council.

PROVOST