



Midlothian

**Midlothian Council
Audited
Financial Statements
2006/07**

Statement of Accounts 2006/2007

Contents

Foreword by Director Corporate Services	1
Accounting Policies	3
Responsibilities for the Statement of Accounts	6
Corporate Governance Assurance Statement	7
Income and Expenditure Account	10
Statement of Movement on the General Fund Balance	11
Statement of Total Recognised Gains and Losses	12
Balance Sheet	13
Cash Flow Statement	14
Notes to the Core Financial Statements	15
Housing Revenue Account	27
Council Tax Income Account	29
Non-Domestic Rate Income Account	30
Group Accounting Policies	31
Group Income and Expenditure Account	32
Reconciliation of the Single Entity Surplus with the Group Surplus	33
Group Statement of Total Recognised Gains and Losses	33
Group Balance Sheet	34
Group Cash Flow Statement	35
Notes to the Groups Core Financial Statements	36
Independent Auditor's Report	37
Glossary of Terms	39

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 2007. The information is presented in accordance with the Code of Practice on Local Authority Accounting. The accounting policies adopted by the Council to ensure that the Accounts “present fairly” financial performance are set out on pages 3 to 5. An explanation of the main technical terms used in the Statement of Accounts is included at pages 38 to 39

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

Accounting Standards

Accounting standards are applied to local authorities through the medium of a statement of recommended practice (SORP). The Council is therefore required to comply with the requirements of “The Code of Practice on Local Authority Accounting in the United Kingdom 2006”, which is issued by the CIPFA/LASAAC Joint Committee.

The SORP includes revised requirements for format and content of the Statement of Accounts and requires the restatement of the 2005/06 comparative figures. Where relevant, attention is drawn to the impact of this in the notes to the accounts.

Financial Performance

The General Fund Reserve at the start of the year was a surplus of £8.918 million, and it was expected that this would be reduced by £0.639 million in the year.

Income

The income from government grants and local taxation in the year was £152.619 million a reduction of £0.013 million against the revised budget.

Expenditure

Net operating expenditure in the year was £163.635 million giving rise to a deficit on the Income and Expenditure account of £11.016m. Adjustments for appropriations etc of £11.923 million, as detailed in the Statement of Movement on the General Fund Balance, left expenditure to be met from government grants and local taxation in the year of £151.712 million. This is £1.559 million or 1.02% less than the revised budget.

Expenditure in the year includes a further £1.443 million, in respect of the costs of settling backdated equal pay claims under The Equal Pay Act 1970. The act provides for equal pay between women and men in the same employment by giving the woman the right to equality in the terms of her contract of employment where she is employed on like for like work to that of a man, or work rated as equivalent or work of equal value.

Balances

The effect of these is that the balance on the General Fund Reserve at the end of the year was £9.825 million of which £6.166 million is earmarked for the following specific purposes.

	£ million
Specific Divisional Reserves	4.665
Devolved School Management	0.737
Contingency for future pay claims	0.764
	6.166

This leaves a working balance and general contingency of £3.659 million.

Housing Revenue Account

When the Housing Revenue Account budget for the year was set, it was anticipated that the income from rents would fund all revenue expenditure and enhance reserves at the end of the year to £6.594 million.

In the event variations in income and expenditure result in reserves at 31 March 2007 of £7.267 million.

Foreword by the Director Corporate Services (Continued)

Capital

Part 7 of the Local Government in Scotland Act 2003 requires that the Council must determine and keep under review how much it can afford to allocate to capital expenditure. In accordance with the SORP capital expenditure totalled £37.328 million in the year. The investment in Council assets and services was made possible by the realisation of capital receipts, grants and developer contributions and borrowing.

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

Group Accounts

The Council is required to prepare the Group Accounts which reflect its financial position including undertakings which are under the Council's control or influence. For 2006/07 Trust funds and Common Goods funds have been consolidated into the group together with Pacific Shelf 826 Ltd which is a wholly owned subsidiary, Shawfair Developments Ltd which is recognised as an associate, Lothian and Borders Police Board, Lothian and Borders Fire Board and Lothian Valuation

Joint Board which are all considered associates

Net Pension Liability

The net pension liability, in accordance with FRS 17 (Retirement Benefits), amounts to £38.908m. This exceeds the useable reserves of £18.094m. The actuarial valuation of the Lothian Pension Fund will consider the appropriate employer's rates and this, together with revenues generated from the Pension Fund investments, will be used to meet the funds commitments as they arise.

Acknowledgements

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

Ian Jackson

Director Corporate Services
11th June 2007

Accounting Policies

1. Introduction

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2006 (The SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee. Exceptions to this are stated in the Accounting Policies and notes to the core financial statements.

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

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

2. Major Changes in Accounting Practice

The 2006 Statement of Accounting Practice (the SORP) introduced significant presentational changes to the main financial statements which is a result of the greater convergence between the SORP and the wider UK Generally Accepted Accounting Practices (GAAP). Although there is no impact on the overall reported financial position of the Council, both the content and order of the financial statements is amended. In order to provide a meaningful benchmark, the prior year comparative figures have been amended where appropriate.

The following changes have been introduced this year for the first time.

Removal of the Consolidated Revenue Account to be replaced by two statements, an Income and Expenditure Account and a Statement of Movement on the General Fund Balance. The Income and Expenditure Account shows the Council’s actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months in accordance with UK GAAP accounting practices. However, the authority is required to raise Council Tax on a different accounting basis, the main differences being:

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

The Statement of Movement on the General Fund Balance compares the Council’s spending against the Council Tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to funds and reserves.

The changes within the Income and Expenditure Account are:

- The removal of capital charges and replacement by depreciation within the net cost of service;
- The inclusion of capital grants written back to services within net cost of service;
- The inclusion of gains or losses on the disposal of fixed assets within net operating expenditure;
- The removal of the Asset Management Restatement Account.

Accounting Policies (continued)

2. Major Changes in Accounting Practice (continued)

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

The format of the Housing Revenue Account (HRA) has been changed to conform with changes to the General Fund to give a HRA Income and Expenditure Account and Statement of Movement on the HRA Balance.

Finally, the core financial statements (i.e. the Income and Expenditure Account, Movement on General Fund Balance, STRGL, Balance Sheet and Cash Flow statements) have been grouped together and are followed by notes to the core financial statements. This is followed by the supplementary statements (i.e. Housing Revenue statements and notes, Council Tax Income Account and notes and the Non-Domestic Income Account and notes).

3. Accruals

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

4. Provisions for bad and doubtful debts

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

5. Reserves

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

6. Government Grants

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

7. Retirement Benefits

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

Teachers

This is an unfunded scheme administered by the Scottish 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.

8. VAT

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

9. Overheads

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

10. Intangible Assets

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

Accounting Policies (continued)

11. Tangible Fixed Assets

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

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

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

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

12. Operating Leases

Current annual operating lease rentals have been charged to revenue.

13. Investments

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

14. Stock and work in progress

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

There is no work in progress included within the Balance Sheet as at 31 March 2007.

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.

16. Debt Redemption

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

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

Costs associated with debt restructuring are classified in accordance with the Accounting Code and are disclosed separately in the Balance Sheet. Costs are released to revenue over the period of the replacement loan.

17. Interest Charges

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

Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

The Director Corporate Services' Responsibilities

The Director Corporate Services is responsible for the preparation of the authority's statement of accounts in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2006 (the SORP).

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

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

The Director Corporate Services has also:

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

These Statements of Accounts present fairly the financial position of the Council at 31 March 2007 and its income and expenditure for the year then ended.

Signed :

Ian Jackson
Director Corporate Services
11th June 2007

Corporate Governance Assurance Statement

Midlothian Council is responsible for ensuring that its business, and that of the group entities Pacific Shelf 826 Ltd and SDL Limited are 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 proper arrangements for the governance of Midlothian's affairs and making the best use of resources at its disposal. 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 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

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 senior management 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.

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

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

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

- Assurance statements received from the Chief Executive and Directors;
- The governance arrangements in place for both Pacific Shelf 826 Ltd and SDL Ltd;
- The work of managers within the Council;
- The work of Internal and External Audit.

The issues highlighted in last years Statement of Corporate Governance have been addressed unless listed in the areas for improvement identified below.

The self-assessment of the assurance system for 2006/07 highlights the following strengths and areas for improvement in the Council's Corporate Governance arrangements.

Strengths:

- The Council continues to have robust financial stewardship arrangements in place;

Corporate Governance Assurance Statement (continued)

- The integration of corporate and service planning with financial planning helps ensure that resources are targeted to deliver the Council's priorities;
 - Up to date Standing Orders, a Scheme of Administration and Financial Regulations support strong governance;
 - Robust and comprehensive arrangements, meeting I.S.O. principles are in place covering IT information security;
 - The Council's risk management policies and strategy continues to drive improvement in the management of strategic, partnership, project and service risk;
 - The speed of implementation of the Planning and Performance Management Framework and a willingness to move to a performance culture;
 - The scrutiny of performance and Audit Committee roles of the Performance Review Committee;
 - The adoption of a Local Code of Corporate Governance and having in place Codes of Conduct for Elected members and Officers;
 - A procurement strategy, which is supported by comprehensive procedures, that supports improvements in procurement arrangements and which is delivering efficiencies in the procurement of goods and services;
 - The introduction of a new corporate system and procedures to improve our approach to '*Following the Public Pound*';
 - Compliance with the Civil Contingencies Act;
 - Robust governance and control over major projects;
 - A coordinated approach to modernising the Council, integrating Customer First, the Efficient Government Agenda, Community Planning and Best Value.
- efficiencies, and manage risk more effectively;
 - Continue to address the specific weaknesses identified in budgetary control and financial monitoring arrangements within the Education and Communities and the Commercial Services Divisions to ensure that the highest standards of financial stewardship are achieved;
 - Strengthen specific aspects of the resilience of I.T. systems to ensure full compliance with the Civil Contingencies Act;
 - Risk Management has exposed residual risk issues, which are being addressed by the Corporate Management Team;
 - Further develop asset management planning to support the development and implementation of a Capital Investment Strategy for all of the Council's assets;
 - Introducing a corporate Project Management methodology that can be applied to most projects;
 - Develop arrangements to ensure that all external inspections are fully prepared for, improvement plans put in place and the outcomes are reported promptly to Elected Members;
 - Further develop Community Planning arrangements;
 - Put in place better forward planning arrangements for the assessment and implementation of new legislation;
 - Embedding personal development planning and management training;
 - Identify resources needed within divisions to ensure a focus on performance management, rather than performance reporting;
 - To improve the Audit Managers Annual report to Performance Review Committee so that it provides an opinion on the adequacy and effectiveness of the system of internal financial control;
 - Progress the improvement plan, addressing the issues arising from the HMIE joint inspection of services to protect children and young people in the Midlothian Council area.

Areas for improvement:

- Developing a robust Financial Strategy that addresses the underlying funding gap, addresses the implementation of Single Status and continues to ensure that resources are targeted to deliver the Council's priorities;
- Processes and Procedures supporting key services need to be improved by rolling out the Process Improvement Framework providing a structured approach to help deliver service improvement, identify

Corporate Governance Assurance Statement (continued)

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

Signed :

**Derek Milligan
Leader of the Council
11th June 2007**

**Trevor Muir
Chief Executive
11th June 2007**

Income and Expenditure Account

for the Year ended 31 March 07

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

2005/06 Restated Net Expenditure £000	Continuing Operations	Gross Expenditure £000	Gross Income £000	2006/07 Net Expenditure £000
74,714	Education Services	86,050	10,332	75,718
35,910	Social Work	44,484	5,466	39,018
9,982	Culture and Related Services	14,428	3,460	10,968
8,666	Roads and Transport Services	9,587	1,346	8,241
7,106	Police Services	7,442	0	7,442
6,099	Environmental Services	9,393	3,011	6,382
2,709	Planning and Development Services	5,635	2,245	3,390
2,097	Fire Services	2,227	0	2,227
4,266	Housing Revenue Account	18,489	13,553	4,936
1,503	Other Housing Services	20,572	18,632	1,940
2,797	Corporate & Democratic Core	3,563	803	2,760
1,709	Central Services to the Public	2,778	795	1,983
147	Non-distributable Costs	(2,133)	0	(2,133)
157,705	Net Cost of Continuing Operations	222,515	59,643	162,872
(889)	Losses/(Gains) on Disposal of Fixed Assets			229
(730)	Deficit/(Surplus)/ on Trading undertakings not included in the Net Cost of Services			(773)
4,924	Interest Payable and similar charges			4,626
38	Investment Losses			0
(1,335)	Interest and Investment Income			(1,568)
	Pensions Interest Cost and Expected Return on Pension Assets			(1,751)
160,575	Net Operating Expenditure			163,635
(34,726)	Council Tax		(34,872)	
(86,004)	Revenue Support Grant		(88,278)	
(29,839)	Non-Domestic Rates		(29,469)	(152,619)
10,006	Deficit/(Surplus) for the year			11,016

Note : The presentation of 2005-06 figures has been amended to conform with reporting requirements for 2006-07.

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

Statement of Movement on the General Fund Balance for the Year ended 31 March 2007

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

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed;
- Retirement benefits are accounted for as employers contributions are made to the Pension Fund rather than as future benefits are earned.

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

2005/06 £000		2006/07 £000
	Deficit/(Surplus) for the year on the Income and Expenditure Account	11,016
	Net additional amount required by statute and non-statutory proper practices to be taken into account when determining the surplus or deficit on the General Fund for the year	(11,923)
	1,252 Reduction/(Increase) in General Fund Balance for the Year	(907)
(10,170)	Balance on General Fund brought forward	(8,918)
(8,918)	Balance on General Fund carried forward	(9,825)

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

2005/06 £000		2006/07 £000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on General Fund Balance for the year	
(17,229)	• Depreciation and impairment of fixed assets	(19,223)
1,046	• Government Grants Deferred amortisation	1,431
889	• Net (surplus)/losses on sale of fixed assets	(229)
(8,450)	• Net charges made for retirement benefits in accordance with FRS17	(5,351)
(23,744)		(23,372)
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year	
6,146	• Loans fund principal repayments	6,725
2,900	• Capital expenditure charged in-year to the General Fund balance	1,410
8,016	• Employer's pension contributions	8,406
17,062		16,541
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
(3,225)	• Transfer to / (from) Capital Fund	(6,600)
1,153	• Increase or (decrease) in the Housing Revenue Account balance for the year	1,508
(8,754)	Net additional amount required to be debited or credited to the General Fund balance for the year.	(11,923)

Statement of Total Recognised Gains and Losses for the Year ended 31 March 2007

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

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

2005/06		2006/07
£000		£000
10,006	Deficit/(Surplus) on the Income and Expenditure Account for the year	11,016
(65,426)	Deficit/(Surplus) on the revaluation of fixed assets	(20,619)
(4,416)	Actuarial loss/(gain) on pension assets and liabilities	(19,757)
(100)	Other losses/(gains)	0
(59,936)	Total Recognised Losses/(Gains) for the Year	(29,360)

Balance Sheet as at 31 March 2007

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

Restated			As at 31 March 2007	
As at 31 March 2006				
£000	£000		£000	£000
		Tangible Fixed Assets		
		Operational Assets		
305,304		Council Houses	322,006	
159,380		Other Land and Buildings	163,097	
8,605		Vehicles, Plant and Equipment	8,022	
15,554		Infrastructure Assets	17,706	
96		Community Assets	159	
	488,939			510,990
		Non-operational Assets		
20,014		Investment Properties	20,942	
12,633		Assets under Construction	21,438	
28,448		Surplus Assets, held for disposal	16,309	
	61,095			58,689
	350	Long-term Investments		350
	4,657	Long-term Debtors		6,064
	4,181	Deferred Premiums on Early Repayment of Debt		3,949
	559,222			580,042
		Current Assets		
469		Stocks and Work in Progress	643	
36,395		Debtors	37,395	
(22,097)	14,298	Less: Bad Debt Provision	(22,975)	14,420
0		Investments		32,000
26,569		Cash and Bank		33,399
	41,336			80,462
		Current Liabilities		
2,479		Borrowing repayable on demand or within 12 months	1,222	
23,978		Creditors	28,303	
1,649		Bank Overdraft	3,356	
	28,106			32,881
	572,452	Total Assets less Current Liabilities		627,623
		Borrowing repayable within a period in excess of 12 months		130,469
	90,245			27,531
	19,218	Government and other Grants Deferred		38,908
	61,720	Liability related to Defined Benefit Pension Scheme		944
	858	Other Provisions		
	400,411	Total Assets less Liabilities		429,771
		Financed By:		
	400,474	Fixed Asset Restatement Account		403,215
	45,977	Capital Financing Account		47,370
	(61,720)	Pension Reserve		(38,908)
	1,003	Insurance Fund		1,002
	0	Capital Fund		0
	5,759	Housing Revenue Account Reserve		7,267
	8,918	General Fund Reserve		9,825
	400,411	Total Balances and Reserves		429,771

Note: The presentation of 2005/06 figures has been amended to conform with the reporting requirements for 2006/07

Signed:

Ian Jackson
Director Corporate Services

11th June 2007

Cash Flow Statement

for the year ended 31 March 2007

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.

	2005/06		2006/07
£000	£000		£000
		Revenue Activities	
		Cash Outflows	
105,031		Cash paid to and on behalf of employees	110,214
86,642		Other operating cash payments	89,662
6,856		Housing benefit paid out	7,466
18,807	217,336	National non-domestic rates payments to national pool	19,222
			226,564
		Cash Inflows	
6,901		House rents	7,630
30,131		Council tax and community charge	30,517
29,900		National non-domestic rate receipts from national pool	29,530
19,279		Non-domestic rates receipts	19,296
86,133		Revenue support grant	88,278
16,343		DWP housing benefit grants	17,582
15,221		Other government grants	19,691
10,764		Cash received for goods and services	11,869
9,658	(224,330)	Other operating cash receipts	10,148
	(6,994)	Net Cash Inflow from Revenue Activities	(7,977)
		Returns on Investment and Servicing of Finance	
	4,137	Interest paid	4,721
	(790)	Interest received	(1,855)
		Capital Activities	
		Cash Outflows	
	24,814	Capital expenditure on fixed assets	35,786
		Cash Inflows	
13,920		Sale of fixed assets	17,761
5,103		Capital grants received	11,038
3		Other capital cash receipts	32
	(19,026)	Net Cash Inflow from Capital Activities	(28,831)
	2,141	Net Cash Outflow/(Inflow) before Financing	1,844
		Management of Liquid Resources	
	0	Net increase/(decrease) in short term deposits	32,000
		Financing	
		Cash Outflows	
	27,828	Repayment of amounts borrowed	45,095
		Cash Inflows	
	(48,893)	New loans raised	(84,062)
	(18,924)	Decrease/(Increase) in Cash	(5,123)

Notes to the Core Financial Statements

1. Operating leases

The Council uses assets financed under the terms of an operating lease. The amount charged to the revenue account under these arrangements in the year was £0.708 million (2005/06 £0.601 million). This all related to Plant Vehicles and Equipment. Future cash payments under these leases total £1.095 million (2005/06 £1.133 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 31.3.07	Year to 31.3.06
	£000	£000
Recruitment advertising	263	247
Other advertising	97	122
Other publicity	2	4
	362	373

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 31.3.07	Year to 31.3.06
	£000	£000
Expenditure		
Social Work services for Midlothian clients City of Edinburgh Council for collection services	1,070	1,102
Other	49	22
	73	114
	1,192	1,238
Income		
Social Work services	624	103
Scottish Water for collection services	159	188
	783	291

4. Retirement Benefits

Local Government Superannuation (Scotland) Scheme

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

	Year to 31.3.07	Year to 31.3.06
	£000	£000
Service Costs	9,974	7,545
Past Service Costs	(2,951)	24
Curtailments	79	19
	7,102	7,588

Which as a percentage of payroll costs are:

	Year to 31.3.07	Year to 31.3.06
Service costs	23.7%	19.0%
Past Service Costs	(7.0%)	0.1%
Curtailments	0.2%	0%
	16.9%	19.1%

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

	Year to 31.3.07	Year to 31.3.06
	£000	£000
Expected return on Employer assets	(14,693)	(11,038)
Interest on pension scheme liabilities	12,942	11,900
	(1,751)	862

Which as a percentage of payroll costs are:

	Year to 31.3.07	Year to 31.3.06
Expected return on Employer assets	(35.0%)	(27.8%)
Interest on pension scheme liabilities	30.8%	30.0%
	(4.2%)	2.2%

Notes to the Core Financial Statements (continued)

5. Retirement Benefits (continued)

Included within the Statement of Movement on the General Fund Balance is a contribution of £3.055 million (2005/06 £0.434 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 £8.406 million, representing 20.00% of pensionable pay (2005/06 £8.016 million or 20.19%).

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

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

Ex gratia payments of £0.056 million representing 0.13% of pensionable pay were also made under Superannuation Regulations (2005/06 £0.052 million or 0.11%).

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

In the year the Council paid an employer's contribution of £4.043 million (2005/06 £3.935 million) into the Teachers' pension scheme which is administered by the Scottish Executive. The rate of contribution was 12.5%.

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

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

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

	As at 31.3.07 £000's	As at 31.3.06 £000's
Estimated employer assets	221,463	200,790
Present value of scheme liabilities	(247,742)	(248,930)
Present value of unfunded liabilities	(12,629)	(13,580)
Net pension liabilities	(38,908)	(61,720)

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

Class of Asset	% of Fund	£000's	Long Term Return
Equities	76.7	169,867	7.8%
Bonds	5.4	11,991	4.9%
Property	12.3	27,223	5.8%
Cash	5.6	12,382	4.9%
		221,463	

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

The main assumptions used in the calculations are:

	2006/07	2005/06
Price inflation	3.2%	3.1%
Salary increases	4.7%	4.6%
Pension increases	3.2%	3.1%
Discount rate	5.4%	4.9%

The net pension liability of £38.908 million (2005/06 £61.720 million) exceeds useable reserves of £18.094 million by £20.814 million (2005/06 £46.040 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.

Notes to the Core Financial Statements (continued)

5. Retirement Benefits (continued)

Movement in deficit during the year	Year to 31.3.07 £000's	Year to 31.3.06 £000's
Deficit at start of year	(61,720)	(65,702)
Current service costs	(9,974)	(7,545)
Employers' contributions	8,406	8,016
Past service costs	2,951	(24)
Impact of curtailments	(79)	(19)
Net return on assets	1,751	(862)
Actual less expected return on scheme assets	1,316	31,861
Gains / (Losses) on scheme liabilities	520	1,266
Changes in the financial assumptions underlying the present value of the scheme liabilities	17,921	(28,711)
Deficit at end of year	(38,908)	(61,720)
History of gains and losses		
	Year to 31.3.07 £000's	Year to 31.3.06 £000's
Actual less expected return on scheme assets	1,316	31,861
Value of assets	221,463	200,785
Percentage of assets	0.6%	15.9%
Gains / (Losses) on scheme liabilities	520	1,266
Present value of liabilities	260,371	262,508
Percentage of present value of liabilities	0.2%	0.5%
Actuarial gains(losses)	19,757	4,416
Present value of liabilities	260,371	262,508
Percentage of present value of liabilities	7.6%	1.7%

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

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

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

6. Members' Allowances

The total allowances and expenses paid to elected members during the year was £0.408 million (2005/06 £0.407 million).

7. Number of Employees

At the end of the year the Council had 3,613 Full Time Equivalent employees (2005/06 3,492).

8. Employees' Remuneration

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

	2006/07	2005/06
£50,000 to £59,999	16	15
£60,000 to £69,999	7	7
£70,000 to £79,999	3	0
£80,000 to £89,999	4	6
£90,000 to £99,999	1	1
£100,000 to £109,999	0	0
£110,000 to £119,999	(note) 2	0

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

Notes to the Core Financial Statements (continued)

9. Related Parties

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

	Year to 31.3.07 £'000	Year to 31.3.06 £'000
Lothian and Borders Police Board	7,442	7,106
Lothian and Borders Fire Board	2,227	2,293
Lothian Valuation Board	555	516
Lothian Pension Fund	10,042	9,568

Creditors within the Balance Sheet include £0.695 million (2005/06 £0.792 million) due to Lothian Pension Fund.

10. Statutory Trading Accounts

The Local Government in Scotland Act 2003 repealed Compulsory Competitive Tendering and sets out a requirement for Statutory Trading Accounts to be maintained for Significant Trading Operations and that they should break even over a three year rolling period. The Council maintains Statutory Trading Accounts for the following three activities which it considers to be Significant Trading Operations. For the rolling period 2004/05 to 2006/07 each of the activities has achieved the required objective.

	Year to 31.3.07 £000's	Preceding Years £000's	3 year surplus £000's
Building Maintenance			
Turnover	6,172	11,030	
Surplus	176	293	469
Roads Maintenance			
Turnover	6,627	8,245	
Surplus/ (Deficit)	(35)	99	64
Investment Properties			
Turnover	810	1,597	
Surplus	597	577	1,174

The surplus on Statutory Trading Activities identified on the Income and Expenditure Account includes Building Maintenance and Investment Properties. In accordance with The Code of Practice on Local Authority Accounting in the United Kingdom 2006, Roads Maintenance is included within Net Cost of Services on the Income and Expenditure Account as part of Roads and Transportation Services. The cost of capital is not reflected in the figures shown above but would not result in a failure to achieve the Statutory objective if it was.

11. 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 £4.482million in 2006/07 (2005/06 £4.461 million) and is committed to paying a further £133.353 million (in cash terms assuming a 2.5% increase in inflation index). This equates to £5.024 million per annum over the remaining life of the contract.

In accordance with the relevant accounting standards £1.200 million (2005/06 £2.900 million) of the contractual payments have been recognised as a long term debtor, representing the proportion of the contractual payments which are attributable to the asset which will transfer to Council Ownership at the end of the contract period. These long term debtors now total £4.1 million.

12. Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice is £0.241 million (2005/06 £0.236 million). No fees were paid in respect of other services provided by the appointed auditor.

Notes to the Core Financial Statements (continued)

13. Equal Pay

Included in the Net Cost of Services is expenditure of £1.443 million (2005/06 £4.510 million) in respect of settling Equal Pay claims under the Equal Pay Act 1970. At 31 March 2007 £3.811 million of claims have been settled and an estimate of £2.142 million for outstanding claims has been provided for in creditors.

14. Capital Expenditure

2005/06 £000	Service Summary of Gross Capital Expenditure	2006/07 £000
	General Fund Services:	
7,316	Education	6,709
226	Social Work	616
1,940	Roads and Transportation Services	3,659
1,084	Planning and Development Services	1,966
2,517	Cultural and Related Services	8,580
4,480	Other Services	2,514
17,563	General Fund Services Total	24,044
8,749	Housing Revenue Account	13,284
26,312	Total Capital Expenditure	37,328

2005/06 £000	Analysis of Capital Expenditure and Capital Financing	2006/07 £000
	Fixed Assets:	
6,175	Site and Building Acquisitions	3,710
9,902	Building Works	21,490
2,123	Road Works	3,449
3,244	Professional Fees	792
1,354	Vehicles and Plant	4,332
614	Other	2,355
23,412	Fixed Assets Total	36,128
2,900	Dalkeith Schools Campus Residual Asset	1,200
26,312	Gross Capital Expenditure Total	37,328
	Capital Financing:	
10,871	Capital Receipts - Sale of land and buildings	11,020
3,037	Government Grants	6,051
2,755	Contribution from Other Bodies	3,691
3	Other receipts	32
2,900	Revenue Contributions to Capital	1,410
6,746	Advances from Loans Fund	15,124
26,312	Capital Financing Total	37,328

Notes to the Core Financial Statements (continued)

15. Capital Receipts

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

2005/06	Capital Receipts from the disposal of fixed assets	2006/07
£000		£000
	Gross Capital Receipts during year:	
6,849	Sale of Council Houses	6,111
5,848	Other Land and Buildings	11,509
3	Rights over Land	0
0	Vehicles	31
12,700	Gross Capital Receipts Total	17,651
	Capital Receipts:	
10,875	Utilised in the year	11,051
1,825	Retained and transferred to the Capital Fund	6,600
12,700	Capital Receipts Applied Total	17,651

16. Related Companies

Pacific Shelf 826 Limited

Midlothian Council is the sole shareholder in Pacific Shelf 826 Ltd, a company incorporated on 31 March 1999 and having its registered office at Midlothian House, Buccleuch Street, Dalkeith. The purpose of the company is to promote Economic Development. The Council's shareholding comprises 100,000 £1 ordinary shares. The Accounts for year ended 31 March 2007 are unqualified.

The most recent results of the company are as follows:

	Year to 31 March 2007	Year to 31 March 2006
	£000	£000
Turnover	2	2
Loss	42	32
Retained losses	1,111	1,069
Net assets at end of year	(421)	(379)

Shawfair Developments Limited

Midlothian Council has a 37.5% shareholding in Shawfair Developments Limited, having its registered office at City Chambers, High Street, Edinburgh. The purpose of the company is to provide a vehicle to develop its shareholders' interest in the South-East Wedge. The Council's shareholding comprises 75 £1 "A" shares. The Accounts for year ended 31 March 2007 are unqualified.

The most recent results of the company are as follows:

	Year to 31 March 2007	Year to 31 March 2006
	£000	£000
Turnover	15	0
Loss	421	187
Retained losses	1,657	1,756
Net assets at end of year	(1,657)	(1,756)

Notes to the Core Financial Statements (continued)

17. Long Term Investments

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

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

The most recent results of the Company are as follows:

	Year to 31 December 2006	Year to 31 December 2005
	£000	£000
Turnover	89,522	75,683
Profit before taxation	7,316	16,271
Taxation	2,677	4,839
Profit after taxation	4,639	11,432
Ordinary dividend	2,198	2,198
Transfer to/(from) reserves	2,441	9,234
Net assets at end of year	33,284	22,919

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

18. Long term borrowing

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

Source of Loan	Outstanding As at 31.3.2007	Outstanding As at 31.3.2006
	£000	£000
Public Works Loan Board	115,430	75,190
European Investment Bank	39	55
Market - Long Term	15,000	15,000
	130,469	90,245
Analysis of loans by maturity within		
1-2 years	35	40
2-5 years	77	3,101
5-10 years	4,418	15,791
Over 10 years	125,939	71,313
	130,469	90,245

Notes to the Core Financial Statements (continued)

19. Movement in Fixed Assets

	Houses £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Gross Book value as at 31 March 2006	308,672	181,755	12,663	22,499	125	61,097	586,811
Additions	9,027	9,695	1,976	3,664	71	11,695	36,128
Disposals	(6,225)	(903)	(376)	0	0	(10,375)	(17,879)
Revaluations and Restatements	14,320	2,559	0	0	0	(3,726)	13,153
Gross Book value at 31 March 2007	325,794	193,106	14,263	26,163	196	58,691	618,213
Depreciation as at 31 March 2006	(3,368)	(22,375)	(4,058)	(6,945)	(29)	(2)	(36,777)
Depreciation for the year	(7,272)	(7,932)	(2,499)	(1,512)	(8)	0	(19,223)
Write back depreciation on revalued assets	6,852	298	316	0	0	0	7,466
Depreciation as at 31 March 2007	(3,788)	(30,009)	(6,241)	(8,457)	(37)	(2)	(48,534)
Net book value as at 31 March 2006	305,304	159,380	8,605	15,554	96	61,095	550,034
Net book value as at 31 March 2007	322,006	163,097	8,022	17,706	159	58,689	569,679

20. Fixed Asset Valuation

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

	Houses £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Valued at Historic Cost	12,723	12,830	14,263	26,163	196	21,845	88,020
Valued at Current Value in:-							
2006/07	313,071	2,348	0	0	0	1,299	316,718
2005/06	0	23,254	0	0	0	5,234	28,488
2004/05	0	35,954	0	0	0	13,460	49,414
2003/04	0	90,540	0	0	0	15,261	105,801
2002/03	0	28,180	0	0	0	1,592	29,772
Total	325,794	193,106	14,263	26,163	196	58,691	618,213

Notes to the Core Financial Statements (continued)

20. Fixed Asset Valuation (continued)

Houses are revalued each year using the Beacon principle based on valuations carried out by the District Valuer. For other Land and Buildings there is a rolling programme of revaluation with assets revalued on a five-year cycle as detailed above. These valuations 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 1st April 2006 giving a total revaluation of £20.619 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 2007 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 (44 years), Community assets (0 to 50 years), Infrastructure (15 years), Non operational assets (0 to 75 years), Operational assets (0 to 50 years). Expenditure on the replacement of component parts of assets (Heating, Ventilation & Electrical systems, Windows & Doors, Roofs, Kitchens etc) are depreciated over the useful life of the component part (15 to 25 years).

The provision for depreciation at the year end was £48.534 million (2005/06 £36.777 million). There is no provision for impairment.

21. Commitments under Capital Contracts

At the end of the year, the Council was contractually committed to capital works, which amounted to approximately £4.035 million (2005/06 £15.525 million).

22. Analysis of net assets employed

	2006/07	2005/06
	£000	£000
General Fund	132,449	94,920
Housing Revenue Account	297,321	305,491
	429,770	400,411

23. Information on number of assets held

	As at March 2007	As at March 2006
Council Houses	6,088	6,225
Operational Buildings		
- Social Work Homes etc	11	11
- Leisure Centres	12	12
- Libraries	9	9
- Nursery Schools	6	6
- Primary Schools	35	35
- Secondary Schools	4	4
- Offices	23	23
- Depots	5	5
- Car Parks	10	10
Operational Equipment		
- Vehicles & Plant	389	352
Infrastructure Assets		
- Highways (km)	638	636
- Bridges	209	208
- Footpaths (km)	627	627
Community Assets		
- Parks	43	43
- Cemeteries	28	28

24. 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 31.3.06	Movement in the year	As at 31.3.07
	£000	£000	£000
Community Charge	9,316	(265)	9,051
Council Tax	9,139	752	9,891
Council Tax			
Penalties	1,293	61	1,354
Non Domestic			
Rates	1,368	135	1,503
House Rents	430	0	430
Other Debtors	551	195	746
	22,097	878	22,975

25. Other Provisions

A provision of £0.568 million (2005/06 £0.482 million) in respect of the self insured element of public and employers' liability claims and a provision of £0.376 million (2005/06 £0.376 million) in respect of accumulated losses of subsidiaries.

Notes to the Core Financial Statements (continued)

26. Reserves

The movements in Reserves are as follows:

	Balance Brought Forward £'000	(Gains) / Losses for the year £'000	Transfers between Reserves £'000	Balance Carried Forward £'000
Fixed Asset Restatement Account	(400,474)	(20,620)	17,879	(403,215)
Capital Financing Account	(45,977)	0	(1,393)	(47,370)
Pension Reserve	61,720	(19,757)	(3,055)	38,908
Insurance Fund	(1,003)	1	0	(1,002)
Capital Fund	0	0	0	0
Housing Revenue Account	(5,759)	0	(1,508)	(7,267)
General Fund Reserve	(8,918)	11,016	(11,923)	(9,825)
Total	(400,411)	(29,360)	0	(429,771)

The Fixed Asset Restatement Account is set up under the system of capital accounting. This account is not available for use.

The Capital Financing Account is set up under the system of capital accounting. This account is not available for use.

The Pension Reserve is set up in accordance with the requirements of Financial Reporting Standard No 17 – Retirement Benefits (FRS 17). This reserve is not available for use. See Notes 4 and 5 for details.

The Insurance Fund is earmarked for insurance purposes.

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

The Housing Revenue Account Reserve represents the accumulated balance on the Housing Revenue Account at 31 March 2007.

The General Fund Reserve represents the accumulated balance on Midlothian Council Revenue Account at 31 March 2007.

27. 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 31.3.07 £000	As at 31.3.06 £000
Dalkeith Common Good	78	88
Penicuik Common Good	8	8
Community Mining Funds	125	155
Other Funds	76	73
Total	287	324

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

28. Devolved School Management

The net amount of unspent balances held by schools under the scheme is £0.737 million (2005/06 £0.363 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

29. Finance Leases

There are no finance leases included in the balance sheet at 31 March 2007.

30. 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.

31. Long Term Debtors

Long Term Debtors within the Balance Sheet include £4.100 million (2005/06 £2.900 million) in respect of the element of the annual payment for the Dalkeith Campus Project which is, in effect, payment for the assets. The current value of which is estimated at £35.000 million and transfers to the Council at the end of the contract period.

32. Events after the balance sheet date

There were no events that occurred between 1st April 2007 and 11th June 2007 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.

33. Contingent Liability

Midlothian Council has provided finance and guaranteed the debts of Pacific Shelf Pacific Shelf 825 Ltd, a wholly owned subsidiary of The City of Edinburgh Council. The amount advanced at 31 March 2007 amounted to £0.863 million (31 March 2006 £0.769 million).

Notes to the Core Financial Statements (continued)

34. Reconciliation of the Income and Expenditure Account surplus to the net revenue activity cash flow			
	£000	£000	£000
Deficit on the Income and Expenditure Account			11,016
Non cash items:			
Depreciation		(19,223)	
Other non cash items		(2,478)	
Movement in Stocks		(174)	
Movement in Long Term Debtors		(1,407)	
Movements in Net Debtors		(120)	
Movement in Creditors		4,324	
Movement in Other Provisions		85	
			(18,993)
Net Cash inflow from Revenue Activities			(7,977)
35. Reconciliation of the movement in cash to the movement in Net Debt			
(Increase) / Decrease in Cash and Bank in year			(5,123)
(Increase) / Decrease in Liquid Resources			(32,000)
(Increase) / Decrease in Debt in year			38,967
Increase in Net Debt in year			1,844
Analysis of Net Debt	31.03.06	31.03.07	Movement
Investments	0	(32,000)	(32,000)
Cash and Bank	(26,569)	(33,399)	(6,830)
Short Term Borrowing	2,479	1,222	(1,257)
Bank Overdraft	1,649	3,356	1,707
Long Term Borrowing	90,245	130,469	40,224
Total Debt	67,804	69,648	1,844
36. Management of Financing			
	31.03.06	31.03.07	Movement
Short Term Borrowing	2,479	1,222	(1,257)
PWLB Loans	75,176	115,414	40,238
Long Term – Market	15,000	15,000	0
European Investment Bank	69	55	(14)
Net Financing – per Cash Flow Statement	92,724	131,691	38,967
37. Analysis of Government Grants			
Revenue Support Grant			88,278
DWP Benefit Subsidy			17,582
Other Government Grants:			
Criminal Justice		729	
Supporting People		5,404	
Changing Children’s Services Fund		786	
Mental Illness		266	
Sheltered Employment		67	
Social Work Training		58	
Employment Initiatives		764	
Rural Transport		71	
Education Grants		7,294	
Strategic Waste Fund		1,698	
Other Grants		2,554	19,691
			125,551

Notes to the Core Financial Statements (continued)

38. Explanation of Prior Year Adjustments

There have been a number of presentational changes in the 2006-2007 accounts as a result of the Council adopting three significant new accounting policies that impact upon the comparative figures for 2005-2006 in the Income and Expenditure Account.

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading operations.
- Credits from government grants are now posted to service revenue accounts, support services and trading operations rather than credited as a corporate income item.
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

These changes have had the following impact upon the comparative figures for 2005/2006 compared with those published in the 2005/2006 accounts (only those figures that have changed are included in the table).

	Consolidated Revenue Account in 2005/06 Accounts £000	Removal of capital financing charges etc. £000	Reallocation of government grants deferred £000	Recognition of gains and losses on disposal of fixed assets £000	Other changes £000	2005/06 comparatives in Income and Expenditure Account £000
Education	80,380	(5,471)	(195)			74,714
Social Work	36,238	(202)				36,036
Cultural and Related Services	10,952	(959)	(11)			9,982
Roads and Transport Services	9,522	(772)	(84)			8,666
Police Services	7,106					7,106
Environmental Services	6,473	(116)	(258)			6,099
Planning & Development Services	3,444	(310)	(425)			2,709
Fire Services	2,097					2,097
Housing Revenue Account	(1,931)		(58)		6,255	4,266
Other Housing Services	1,400				(23)	1,377
Corporate & Democratic Core	2,815	(5)	(14)		1	2,797
Central Services to the Public	1,709					1,709
Non Distributable Costs	147					147
Gains on disposal of fixed assets	0			(889)		(889)
Surplus on trading operations	(265)	(465)				(730)
Interest Payable (including balance on AMRA)	1,811	8,300	1,045		(6,232)	4,924
Investment Losses	38					38
Interest and Investment Income	0				(1,335)	(1,335)
Interest on Revenue Balances	(1,215)				1,215	0
Investment Income	(120)				120	0
Pension Interest Costs and Expected return on Pension Assets	862					862
Net Operating Expenditure	161,463	0	0	(889)	1	160,575

Housing Revenue Account

Income and Expenditure Account for the year ended 31 March 2007

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

Restated 2005/06 £000		2006/07 £000	per house per week
	Income		
12,010	Gross dwelling rents	12,726	40.20
338	Non dwelling rents	349	1.10
140	Other Income	428	1.35
12,488		13,503	42.65
	Expenditure		
5,511	Repairs and Maintenance	5,726	18.09
3,106	Supervision and Management	3,254	10.28
6,310	Depreciation and Impairment of Fixed Assets	7,387	23.34
1,847	Other Expenditure	2,046	6.46
(20)	Increase/(Decrease) in Bad Debt Provision	26	0.08
		18,439	58.25
4,266	Net Cost of HRA services per the whole authority Income and Expenditure Account	4,936	15.60
95	HRA share of Corporate and Democratic Core	95	0.30
4,361	Net Cost of HRA Services	5,031	15.90
	HRA share of the operating income and expenditure included in the whole authority accounts		
(986)	Loss/(Gain) on sale of HRA fixed assets	109	0.34
30	Interest Payable and similar charges	182	0.57
(223)	Interest and Investment Income	(273)	(0.86)
57	Pensions Interest Cost and Expected Return on Pension Asset	(115)	(0.36)
3,239	Deficit / (Surplus) for the year on the HRA Services	4,934	15.59

Statement of Movement on the HRA Balance for the Year ended 31 March 2007

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

2005/06 £000		2006/07 £000	per house per week
3,239	Deficit for the year on the HRA Income & Expenditure Account	4,934	15.59
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
986	Gain/(loss) on sale of HRA fixed assets	(109)	(0.34)
(95)	HRA Share of Corporate and Democratic Core	0	0.00
(6,203)	Transfer to/(from) Capital Financing Account	(7,251)	(22.90)
1,000	Transfer to/(from) General Fund	1,055	3.33
(80)	HRA share of contributions to/from pension reserve	(137)	(0.43)
(1,153)	(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account	(1,508)	(4.75)
(4,606)	Housing Revenue Account Balance brought forward	(5,759)	(18.19)
(5,759)	Housing Revenue Account Balance carried forward	(7,267)	(22.94)

Notes to the Housing Revenue Account

1. General

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

2. Housing Stock

At 31 March 2007 the Council had 6,088 houses (31 March 2006 6,225) which can be analysed as follows:

Type of Dwelling	2006/07 Number	2005/06 Number
1 / 2 Apartments	790	802
3 Apartments	3,449	3,530
4 Apartments	1,579	1,612
5 / 6 Apartments	270	281
Total	6,088	6,225

3. Rent Arrears

At the end of the year rent arrears amounted to £1.622 million (2005/06 £1.397 million) for which a provision for bad and doubtful debts of £0.430 million (2005/06 £0.430 million) exists. The increase in the Bad Debt Provision relates to rechargeable accounts and is included in Other Debtors in Note 24 to the Accounts.

Council Tax Income Account

for the year ended 31 March 2007

Councils raise taxes from residents by way of a property tax – the Council Tax – which is based on property values. Each dwelling house in a local authority area is placed into one of eight valuation bands A to H. The Council declares a tax for band D properties and all other properties are charged a proportion of this, lower valued properties pay less; higher valued properties pay more.

2005/06		2006/07
£000		£000
38,364	Gross Council Tax levied	39,994
	Less :	
3,891	Discounts	4,306
1,032	Provision for bad & doubtful debts	1,068
(81)	Council Tax Benefits (net of Government Grant)	(52)
33,522		34,672
1,204	Adjustments to previous years	200
34,726	Net Council Tax income for the Year	34,872

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	1,015	11,849	9,744	3,881	4,095	2,093	1,412	153	34,242
Disabled relief	58	(6)	(19)	(8)	(10)	(4)	(10)	(1)	0
Less									
Exemptions	55	373	228	59	193	38	26	5	977
Discounts (25%)	158	1,343	769	251	190	69	38	2	2,820
Discounts (50%)	2	15	8	7	6	2	2	0	42
Other Discounts	2	11	9	4	6	3	2	1	38
Effective properties	856	10,101	8,711	3,552	3,690	1,977	1,334	144	30,365
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D equivalents	571	7,856	7,743	3,552	4,510	2,856	2,223	288	29,599
Contributions in lieu – Band D equivalents									245
Total									29,844
Provision for non payment									(895)
Council Tax Base									28,949

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

Band	A	B	C	D	E	F	G	H	Total
No's	856	10,101	8,711	3,552	3,690	1,977	1,334	144	30,365
£	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 2007

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

2005/06		2006/07
£000		£000
24,429	Gross rates levied	24,644
	Less:	
4,984	Reliefs and other deductions	4,811
3	Interest paid	1
472	Provision for bad & doubtful debts	512
(222)	Adjustments to previous years	(354)
19,192	Net Non Domestic Rate Income	19,674
	Allocated:	
19,253	Contribution to national non-domestic rates pool	19,735
(61)	Midlothian Council	(61)
19,192		19,674

Notes

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £29.530 million (2005/06 £29.900 million).
2. Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Midlothian. The non-domestic rate poundage is determined by the Scottish Executive, and was 44.9p per £, where the rateable value was less than or equal to £29,000 and 45.3p per £ where the rateable value exceeded £29,000. Properties which had a rateable value of £11,500 or less received a minimum Small Business Rate Relief of 5%.
3. Rateable Value as at the start of the year (comparatives in brackets)

	Number	Rateable Value £000
Shops, Offices and Other Commercial Subjects	1,471 (1,434)	32,313 (31,206)
Industrial and Freight Transport	802 (786)	12,541 (12,642)
Miscellaneous (Schools etc)	317 (312)	11,292 (11,162)
	2,590 (2,532)	56,146 (55,010)

Group Accounting Policies

1. Introduction

The Code of Practice on Local Authority Accounting in the United Kingdom 2006 : A Statement of Recommended Practice (the SORP) requires local authorities to consider their interests in all types of entity. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Police, Fire and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities.

2. The Group

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

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

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

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

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

3. Basis of Combination & Going Concern

The combination has been accounted for under the accounting conventions of the "acquisition basis" using the equity method – the Council's share of the net assets or liabilities of each entity is incorporated and adjusted each year by the Council's share of the entities' results (recognised in the Group Income & Expenditure Account), and its share of other gains & losses.

For all of the entities, the Council has a share in a net liability. The negative balances on Police, Fire, & Valuation Joint Boards arise from the inclusion of liabilities related to the defined benefit pension schemes as required by FRS17 (i.e. their pension liability to pay retirement benefits in the long term).

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

4. Disclosure of Differences with Main Statement of Accounting Policies

The financial statements in the Group Accounts of Midlothian Council are prepared in accordance with the accounting policies set out in pages 3 to 5 with the additions and exceptions shown in the following section.

5. Retirement Benefits

Police and fire fighters have separate pension arrangements. The Police Pension Scheme and the Firemen's Pension Scheme are unfunded and therefore net pension payments are charged to the income & expenditure account in the year in which payment is made. The Police and Fire Joint Boards have used the same assumptions as those used by Midlothian Council in their separate calculations to arrive at their net pension liability i.e. price increases, salary increases, pensions increases and discount rates.

Group Income & Expenditure Account for the Year ended 31 March 2007

Restated 2005/06 Net Expenditure	Service	Gross Expenditure £000	Gross Income £000	2006/07 Net Expenditure £000
74,714	Education Services	86,050	10,332	75,718
35,910	Social Work	44,484	5,466	39,018
9,982	Culture and Related Services	14,428	3,460	10,968
8,666	Roads and Transport Services	9,587	1,346	8,241
7,106	Police Services	7,442	0	7,442
6,099	Environmental Services	9,393	3,011	6,382
2,709	Planning and Development Services	5,635	2,245	3,390
2,097	Fire Services	2,227	0	2,227
4,266	Housing Revenue Account	18,489	13,553	4,936
1,503	Other Housing Services	20,572	18,632	1,940
2,796	Corporate & Democratic Core	3,563	803	2,760
1,706	Central Services to the Public	1,982	0	1,982
163	Non-distributable Costs	(2,089)	0	(2,089)
157,717	Net Cost of Services	221,763	58,848	162,915
776	Share of Operating Results of Associates			1,788
(889)	(Gains)/Losses on Disposal of Fixed Assets			226
(737)	Net (Surplus)/Deficit on Trading Operations			(771)
5,165	Group Interest Payable			4,832
(1,413)	Group Interest & Investment Income Received			(1,635)
	Pensions Interest Cost and Expected Return on			
862	Pension Assets			5,630
	Pensions Interest Cost and Expected Return on			
5,336	Pension Assets of Associates			(1,751)
166,817	Net Expenditure			171,234
	Income from taxation and general			
	government grants			
(34,726)	Council Tax			(34,872)
(86,004)	Revenue Support Grant			(88,278)
(29,839)	Non-domestic Rates			(29,469)
16,248	Group Deficit/(Surplus) for the Year			18,615

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

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

2005/06 Net Expenditure £000		2006/07 Net Expenditure £000
10,006	Deficit on the Council's single entity Income and Expenditure Account for the year	11,016
	Subsidiary and associate dividend income and any other distributions from group entities included in the single entity surplus or deficit on the	
8	Income and Expenditure Account	37
	Surplus or deficit arising from other entities included in the group accounts analysed into the amounts attributable to:	
(6)	- Subsidiaries	42
6,240	- Associates	7,520
16,248	Deficit for the Year on the Group Income and Expenditure Account	18,615

Group Statement of Total Recognised Gains and Losses for the Year ended 31 March 2007

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

2005/06 Net Expenditure £000		2006/07 Net Expenditure £000
16,248	Deficit on the Group Income and Expenditure Account for the year	18,615
(65,471)	Deficit/(Surplus) on the revaluation of fixed assets	(21,072)
7,140	Actuarial loss/(gain) on pension assets and liabilities	(29,657)
127	Other losses/(gains)	566
(41,956)	Total Recognised Gains and Losses for the Year	(31,548)

Group Cash Flow Statement

for the year ended 31 March 2007

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.

2005/06 £000	£000	2006/07 £000
(7,004)		(7,975)
Net cash inflow from revenue activities (note 1)		
Net cash inflow/outflow from servicing of finance		
4,179		4,761
(790)		(1,855)
Net cash inflow/outflow from capital activities		
24,814		35,786
(13,920)		(17,761)
(5,103)		(11,038)
(4)		(32)
2,172		1,886
Net cash inflow/outflow before financing		
Management of liquid resources		
0		32,000
Financing		
27,828		45,095
(48,893)		(84,062)
(18,893)		(5,081)
Net (Increase)/Decrease in Cash		

Note 1

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

	£000	£000
Deficit for the year		18,615
Depreciation	(19,223)	
Other Adjustments not involving movement of funds	(9,316)	
Movement in Stocks	(174)	
Movement in Long Term Debtors	(2,163)	
Movement in Net Debtors	(123)	
Movement in Creditors	4,324	
Movement in other Provisions	85	
Net cash inflow from revenue activities		(7,975)

Notes to the Groups Core Financial Statements

1. The Group

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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 £111.578 million, the principal reason for the change being the Council's share of the deficit on the associates' Pension Reserves.

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

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

I certify that I have audited the financial statements of Midlothian Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash-Flow Statement, Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the 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 for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the 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 2006 - A Statement of Recommended Practice (the 2006 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 the local authority and its group in accordance with applicable laws and regulations and the 2006 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 Corporate Governance Assurance Statement 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 the local authority'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 and Glossary of Terms. 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 the local authority's and its group'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 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 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

28 September 2007

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 & Democratic Core

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

4. Non Distributable Costs

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

5. Employee Costs

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

6. Property Costs

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

7. Supplies & Services

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

8. Transport Costs

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

9. Administration

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

10. Financing Costs

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

11. Capital Charges

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

12. Payments to Other Bodies

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

13. Capital Financed from Current Revenue

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

14. Other Costs

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

Glossary of Terms

15. Specific Government Grant

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

16. Capital Expenditure

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

17. Fixed Assets

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

18. Fixed Asset Restatement Account

The Fixed Asset Restatement Account represents the balance between the historic cost or purchase price of fixed assets and their market value at 31 March 2007.

19. Capital Financing Account

The Capital Financing Account contains the amounts that are required by statute to be set aside from capital receipts for the repayment of external loans, as well as the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

20. Useable Capital Receipts Reserve

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

21. Government Grant Deferred

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

22. Pension Reserve

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

23. Generally Accepted Accounting Practice in the UK (UK GAAP)

The overall body of regulation establishing how company & Council accounts must be prepared in the United Kingdom.

24. Associate

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

25. Entity

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