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Midlothian

Midlothian Council
Audited
Financial Statements
2008/09

Statement of Accounts 2008/2009
Contents

Explanatory Foreword by the Director Corporate Services

Introduction
The Statement of Accounts presents the financial position and performance of the Council for the year to 31st March 2009. It also includes the Council's Group Accounts which reflect its financial position including undertakings which are under the Council's control or influence. The information is presented in accordance with the Code of Practice on Local Authority Accounting. The accounting policies adopted by the Council are to ensure that the Accounts present a true and fair view. A brief review of financial performance is covered below. An explanation of the main technical terms used in the Statement of Accounts is included at pages 52 to 54.

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

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

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

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

- *The Housing Revenue Account (HRA)* reflects the statutory requirement to account separately for local authority housing provision, as defined in the Housing (Scotland) Act 1987. The Income and Expenditure Account reports the net cost for the year and shows how these costs were funded from rents and other income. The Statement of Movement of HRA balance reconciles the financial position shown in the Income and Expenditure Account to the movement in the HRA reserve for the year;
- *The Council Tax Income Account* shows the gross and net income from the council tax, together with details of the number of properties on which the council tax is levied, and the charge per property;
- *The Non-domestic Rates Income Account* shows the gross and net income from non-domestic rates and details the amount payable to the national non-domestic rates pool.

Explanatory Foreword by the Director Corporate Services

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

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

Trust Funds and Common Goods funds have been consolidated into the group together with Pacific Shelf 826 Ltd which is a wholly owned subsidiary, Shawfair Developments Ltd which is a 50% owned Joint Venture company and Lothian and Borders Police Board, Lothian and Borders Fire Board and Lothian Valuation Joint Board which are all considered associates.

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 2008", which is issued by the CIPFA/LASAAC Joint Committee.

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

The Council overspent by £3.451 million against its revised budget. The main variances were £1.007 million overspend on General Fund services, £0.354 million overspend on loan charges and a £2.363 million overspend on accumulated losses of Shawfair Developments Ltd (SDL). It is still expected that in the longer term these costs will be recovered from the eventual sale of the Shawfair landholding.

Income from government grants and local taxation in the year was £183.494 million, an increase of £0.556 million against the revised budget mainly because of an increase in chargeable properties for Council Tax. Scottish Government Grant in 2008/09 is £20.918 million greater than 2007/08. The main reason for this is a move by the Scottish Government from ring-fenced grants to block grants.

The General Fund Reserve at the start of the year was a surplus of £11.764 million, and it was expected that this would be reduced by £9.143 million in the year. The actual position was a reserve of £2.122 million. £4.441 million of this has been earmarked for specific purposes leaving a deficit of £2.319 million. The Council is factoring this situation into its 2010/11 budget strategy.

Expenditure in the year included a further £6.006 million in respect of the costs of providing for settlement of 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.

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 £9.876 million. In the event variations in income and expenditure resulted in reserves at 31 March 2009 of £10.352 million.

Explanatory Foreword by the Director Corporate Services

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

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

They all met their statutory objective. More details are provided in Note 10 to the Core Financial Statements.

Capital
Part 7 of the Local Government in Scotland Act 2003 requires that the Council must determine and keep under review how much it can afford to allocate to capital expenditure. In accordance with the SORP capital expenditure totalled £71.394 million in the year. The two main capital projects were new build HRA houses (£28.089 million) with 339 completed in 2008/09 and new build primary schools (£18.128 million).

The main sources of funding which allowed for investment in Council assets and services was made possible by the realisation of capital receipts (£5.450 million), grants (£6.370 million), developer contributions (£2.001 million) and borrowing (£56.090 million). A full analysis of capital income and expenditure is provided in notes 16 and 17 to the core financial statements.

Long-term Borrowing
The Council borrowed money throughout the year to meet anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the council's borrowing comes from the Public Works Loans Board. Further details are provided in note 35 to the Core Financial Statements.

Net Pension Liability
SORP 2008 requires that the valuation basis for the Council's share of the pension fund assets should be changed from "market value" to "bid value". 2007/08 comparatives have not been restated as this change is deemed to not be material.

The net pension liability, in accordance with FRS 17 (Retirement Benefits), amounts to £42.676 million. This is more than the council's useable reserves of £13.108 million. The actuarial valuation of the Lothian Pension Fund will consider the appropriate employer's rates and this, together with revenues generated from the Pension Fund investments, will be used to meet the fund's commitments as they arise.

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

Ian Jackson
Director Corporate Services
22 June 2009

Accounting Policies

1. Introduction
The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008 (the SORP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Local Authority (Scotland) Accounts Advisory Committee (LASAAC) Joint Committee. Exceptions to this are stated in the Accounting Policies and notes to the core financial statements.

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

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

2. Changes in Accounting Practice
The 2008 Statement of Accounting Practice (the SORP) made some minor changes from its predecessor which is a result of a move to greater convergence between the SORP and the wider UK Generally Accepted Accounting Practices (GAAP).

The circumstances in which it would be appropriate to use the depreciated replacement cost method of valuing property are clarified and a cap and trade scheme for Landfill Allowances was introduced from 1st April 2008.

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

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

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

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

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

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

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

Accounting Policies

7. Retirement Benefits (cont)
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.

SORP 2008 requires that the valuation basis for the Council's share of the pension fund assets should be changed from "market value" to "bid value". 2007/08 comparatives have not been restated as this change is deemed to not be material.

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

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

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

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

Council Houses are revalued each year using the Beacon principle based on valuations carried out by the District Valuer.

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

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

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

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

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

13. Investments
Investments are shown in the Balance Sheet at fair value.

Accounting Policies

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

There is no work in progress included within the Balance Sheet as at 31 March 2009.

15. Public Private Partnership Schemes
The accounting treatment of the Public Private Partnerships for the provision of the Dalkeith Campus and for Stobhill, Gorebridge, Tynewater, Moorfoot, Loanhead and St Margaret's Campus, Lawfield and Strathesk Primary Schools is in accordance with Financial Reporting Standard No. 5 – Reporting the Substance of Transactions, and Treasury Guidance.

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

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

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

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

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

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

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

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

Responsibilities for the Statement of Accounts

The Authority's Responsibilities

The Authority is required:

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

The Director Corporate Services' Responsibilities

The Director Corporate Services is responsible for the preparation of the authority's statement of accounts in accordance with proper practice as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2008 (the SORP).

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

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

The Director Corporate Services has also:

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

These Statements of Accounts present a true and fair view of the financial position of the Council at 31 March 2009 and its income and expenditure for the year then ended.

Signed:

Ian Jackson
Director Corporate Services
22 June 2009

Annual Governance Statement

Midlothian Council is responsible for ensuring that its business, and that of the group entities is conducted in accordance with the law, its code of corporate governance and proper standards. This is so that public funds and assets at its disposal are safeguarded and used efficiently and effectively, in pursuit of Best Value.

Elected members and senior management are responsible for the governance of the business affairs of Midlothian Council and adopt the following principles of corporate governance and assurance self-assessment which include:

Financial Governance

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

Non Financial Governance

- Standards in Public Life and Statutory role of Monitoring Officer
- Project Management Framework
- Leadership and Change Management
- Policies and Strategies
- Preparation for new legislation
- Control of Risk and Opportunity
- Preparation for external inspection
- Planning and Performance Management and Improvement Programme
- Community Planning and Single Outcome Agreement (concordat with Scottish Government)
- Business Continuity Management
- Complaints systems
- Human Resources Policies

Internal controls, whether of a financial or non financial nature, should give reasonable, but not absolute, assurances that assets are safeguarded, that transactions are authorised and properly recorded and that material errors or irregularities are either prevented or would be detected in a timely period. Chief Officials are responsible for internal financial control within their divisions. Internal Audit is an independent appraisal function, with reporting lines to the Director, Corporate Services and the Chief Executive.

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

Governance Improvements completed in 2008/09

Some governance improvements identified in the Statement of Corporate Governance 2007/08 have been satisfactorily dealt with, whereas some require longer term solutions and are carried forward below and suffixed (2007-08).

Annual Governance Statement

Governance Improvements to be progressed during 2009/10

The Council acknowledges the need for continuous improvement and, as a matter of course, is dealing with the following control matters, and these are being further progressed in 2009/10:

- **Modernising Midlothian** – the new pay and grading structure has been agreed and existing staff have been transferred to these conditions on 29 June 2009. The main ongoing issues are the completion and implementation of the competency framework and the management of equal pay claims (2007/08);

- **Major Projects** – during 2008/09 some were delayed due to the downturn in the economy and revised control measures have had to be developed and managed to ensure some progress is made in pursuit of corporate aims and objectives. Furthermore, an analysis is ongoing of the implications of further impediments to important projects;

- **Option Appraisal** – a new system has been developed and requires to be implemented and linked to the Asset Management Plan and the Capital Investment Framework (2007/08);

- **Best Value** – the improvement plan arising from the Best Value Audit report of 2007 requires completion (2007/08);

- **Housing Management** – the Scottish Housing Regulator improvement plan requires completion and the financial burden of homelessness addressed further (2007/08);

- **Business Continuity Management** – divisional plans require further testing and further improvements made in information technology resilience (2007/08);

- **Information Management** – the Information Management Group was set up to advise Divisions on the management of information and further control the sharing of data with other bodies. During 2008/09 progress was made but the actions in the Group's agenda require to be completed;

- **Asset Management** – the Council's Asset Management Plan (AMP) is at an advanced stage, as is the collection of key data on each Council property. However, the AMP requires to be finalised to fully inform the Capital Investment Strategy, and to identify efficiency savings. It also requires to be linked to and full use made of the new corporate option appraisal system (2007/08);

- **Schools** – a funding solution for the replacement of Newbattle and Lasswade Community High Schools is required (2007/08). Furthermore a schools catchment area review requires to be completed;

- **Community Planning** – the Community Planning arrangements and performance management requires further improvement (2007/08);

- **Internal Control** – the internal control environment requires some improvement in terms of compliance with Financial Directives, Procurement Policies and the revised Internal Control guidelines, and issues flagged in the Planning and Performance Management Framework to demonstrate continuous improvement;

- **Leadership** – the Council has appointed a new Chief Executive and a Head of Service, Community Care. A new Head of Service, Communities and Support Services, will also be appointed. A refreshed Elected Member learning and development plan is underway and the Council requires to ensure these appointments / events contribute to corporate aims and objectives;

- **IT Project Resource** – the Corporate Management Team has acknowledged that there is a growing need to enhance the programming and prioritisation of IT resources into key projects and priorities.

Annual Governance Statement

On the basis of the Council's assurance system, and the elements of governance at our disposal, we are satisfied that overall, Midlothian's corporate governance arrangements are of a satisfactory standard and that we are aware of areas where improvement is required. 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 and continuous improvement arrangements.

Signed :

Derek Milligan
Leader of the Council
25 September 2009

Kenneth Lawrie
Chief Executive
25 September 2009

(Note: Kenneth Lawrie commenced with the Council on 14 September 2009. During 2008/09 Trevor Muir was Chief Executive.)

Income and Expenditure Account

For the year ended 31 March 2009

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.

2007/08 Net Expenditure £000	Continuing Operations	Notes	Gross Expenditure £000	Gross Income £000	2008/09 Net Expenditure £000
87,268	Education Services		104,493	4,390	100,103
40,072	Social Work		52,277	10,391	41,886
10,973	Culture and Related Services		15,545	4,144	11,401
6,756	Roads and Transport Services		10,490	1,241	9,249
7,532	Police Services		8,042	345	7,697
5,969	Environmental Services		9,634	1,753	7,881
3,359	Planning and Development Services		5,243	2,573	2,670
2,190	Fire Services		2,998	0	2,998
5,122	Housing Revenue Account		22,096	14,616	7,480
2,748	Other Housing Services		25,667	16,617	9,050
2,792	Corporate & Democratic Core		4,124	820	3,304
1,197	Central Services to the Public		6,894	1,055	5,839
1,244	Non-distributable Costs		(634)	0	(634)
177,222	**Net Cost of Services**		**266,869**	**57,945**	**208,924**
307	Loss on Disposal of Fixed Assets				110
(377)	Deficit / (Surplus) on Trading undertakings not included in the Net Cost of Services	10			(339)
5,524	Interest Payable and similar charges				6,419
0	Investment losses	18			2,363
(2,014)	Interest and Investment Income				(2,414)
(1,994)	Pensions Interest Cost and Expected Return on Pension Assets	5			99
178,668	**Net Operating Expenditure**				**215,162**
(35,740)	Council Tax				(36,259)
(95,966)	Scottish Government Grant				(116,884)
(28,847)	Non-Domestic Rates				(30,351)
18,115	**Net Deficit/(Surplus) for the year**				**31,668**

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

Statement of Movement on the General Fund Balance

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

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

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

2007/08 £000		2008/09 £000
18,115	**Deficit/(Surplus) for the year on the Income and Expenditure Account**	**31,668**
(20,054)	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	(22,026)
(1,939)	**Reduction/(Increase) in General Fund Balance for the Year**	**9,642**
(9,825)	Balance on General Fund brought forward	(11,764)
(11,764)	**Balance on General Fund carried forward**	**(2,122)**

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

2007/08 £000	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on General Fund Balance for the year	2008/09 £000
(29,689)	• Depreciation and impairment of fixed assets (note 20)	(35,411)
1,975	• Government Grants Deferred amortization	2,631
(307)	• Net surplus/(losses) on sale of fixed assets	(110)
(620)	• Financing Costs	(646)
(7,608)	• Net charges made for retirement benefits in accordance with FRS 17 (note 5)	(5,997)
(36,249)		**(39,533)**
	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	
6,762	• Loans fund principal repayments	7,210
1,231	• Capital expenditure charged in-year to the General Fund (note 11)	2,375
9,013	• Employer's pension contributions (note 5)	9,373
17,006		**18,958**
	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	
(3,819)	• Transfer to / (from) Capital Fund	(1,160)
777	• Transfer to / (from) Insurance Fund (note 14)	(1,145)
2,231	• Increase or (decrease) in the Housing Revenue Account balance for the year	854
(20,054)	**Net additional amount required to be debited or (credited) to the General Fund Balance for the year**	**(22,026)**

Statement of Total Recognised Gains and Losses

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

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

2007/08 **£000**		2008/09 **£000**
18,115	**Deficit/(Surplus) on the Income and Expenditure Account for the year**	**31,668**
(109,985)	Deficit/(Surplus) on the revaluation of fixed assets (note 20)	(48,275)
(24,730)	Actuarial loss/(gain) on pension assets and liabilities (note 5)	33,280
3,716	(Gain) / Loss arising on Financial Instruments Adjustment Account	(852)
0	Deficit/(Surplus) arising on revaluation of available-for-sale financial assets	(612)
(112,884)	**Total Recognised Losses/(Gains) for the Year**	**15,209**

Balance Sheet

As at 31 March 2009

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.

2007/08 £000 Restated		**Notes**	**2008/09 £000**	**2008/09 £000**
0	Intangible Assets	25		319
	Tangible Fixed Assets			
	Operational Assets			
387,741	Council Houses	20,21	439,742	
169,730	Other Land and Buildings	20,21	197,742	
8,238	Vehicles, Plant and Equipment	20,21	7,618	
22,174	Infrastructure Assets	20,21	21,270	
726	Community Assets	20,21	806	
588,609				667,178
	Non-operational Assets			
30,193	Investment Properties	20,21	24,772	
45,165	Assets under Construction	20,21	51,490	
28,341	Surplus Assets, held for disposal	20,21	24,656	
103,699				100,918
350	Long-term Investments	19		962
7,343	Long-term Debtors	11,29		14,006
700,001				**783,383**
	Current Assets			
596	Stocks and Work in Progress		646	
37,988	Debtors	26	35,618	
(23,571)	Less: Bad Debt Provision	26	(24,333)	
14,417	Net Debtors	26	11,285	
53,005	Investments	35	39,727	
20,994	Cash and Bank		132	
89,012				51,790
	Current Liabilities			
314	Borrowing repayable on demand or within 12 months	35	35,611	
31,483	Creditors	27	28,150	
1,352	Bank Overdraft		276	
33,149				64,037
755,864	**Total Assets less Current Liabilities**			**771,136**

Balance Sheet

As at 31 March 2009

2007/08 £000 Restated		Notes	2008/09 £000	2008/09 £000
155,183	Borrowing repayable within a period in excess of 12 months	35		142,210
44,719	Government and other Grants Deferred			50,726
12,773	Liability related to Defined Benefit Pension Scheme	5		42,676
534	Other Provisions	13,14,28		8,078
542,655	**Total Assets less Liabilities**			**527,446**
	Financed By:			
435,880	Capital Adjustment Account	30		417,784
100,843	Revaluation Reserve	30		142,748
0	Available-for-sale Financial Instruments Reserve	19,30		612
(4,336)	Financial Instruments Adjustment Account	30,35		(4,130)
(12,773)	Pension Reserve	5,30		(42,676)
1,779	Insurance Fund	14,30		634
9,498	Housing Revenue Account Reserve	30		10,352
11,764	General Fund Reserve	30		2,122
542,655	**Total Balances and Reserves**			**527,446**

The unaudited accounts were issued on 22 June 2009 and the audited accounts were authorised for issue on 25th September 2009.

Signed:
Ian Jackson
Director Corporate Services

Cash Flow Statement for the Year ended 31 March 2009

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.

2007/08 £000		**Notes**	**2008/09 £000**	**2008/09 £000**
	Revenue Activities			
	Cash Outflows			
117,074	Cash paid to and on behalf of employees		120,878	
100,606	Other operating cash payments		117,376	
7,880	Housing benefit paid out		8,771	
19,888	National non-domestic rates payments to national pool		21,199	
245,448				268,224
	Cash Inflows			
8,230	House rents		7,357	
31,760	Council tax and community charge		31,838	
28,906	National non-domestic rate receipts from national pool		30,415	
19,962	Non-domestic rates receipts		19,983	
96,578	Scottish Government Grant	39	116,884	
18,288	DWP housing benefit grants	39	18,640	
18,687	Other government grants	39	5,594	
13,368	Cash received for goods and services		15,935	
18,526	Other operating cash receipts		23,780	
(254,305)				(270,426)
(8,857)	**Net Cash Inflow from Revenue Activities**	36		**(2,202)**
	Returns on Investment and Servicing of Finance			
5,713	Interest paid			6,981
(3,569)	Interest received			(3,270)
	Capital Activities			
	Cash Outflows			
45,476	Capital expenditure on fixed assets			69,399
	Cash Inflows			
(9,276)	Sale of fixed assets		(5,494)	
(13,186)	Capital grants received		(8,146)	
(3,265)	Developer contributions		(2,020)	
(453)	Other capital cash receipts		(506)	
(26,180)	**Net Cash Inflow from Capital Activities**			(16,166)
12,583	**Net Cash Outflow/(Inflow) before Financing**	37		**54,742**
	Management of Liquid Resources			
20,724	Net increase/(decrease) in short term deposits			(12,626)
	Financing			
	Cash Outflows			
12,739	Repayment of amounts borrowed	38		32,475
	Cash Inflows			
(35,644)	New loans raised			(54,800)
10,402	**Decrease/(Increase) in Cash**	38		**(19,791)**

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 £0.740 million (2007/08 £0.685 million). This all related to Vehicles, Plant and Equipment. Future cash payments under these leases within 1 year is £0.529 million (2007/08 £0.471 million), within 2 to 5 years is £0.530 million (2007/08 £0.474 million) and over 5 years is £0.061 million (2007/08 £0.068 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:

	2008/09	**2007/08**
	£000	**£000**
Recruitment advertising	147	276
Other advertising	82	84
Other publicity	3	3
	232	**363**

3. Agency Income and Expenditure

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

The main items of agency expenditure and income were:

	2008/09	**2007/08**
Expenditure	**£000**	**£000**
Payments to other Local Authorities in respect of:		
Social Work services for Midlothian clients	1,179	1,215
Services for Special Needs pupils	212	268
Pentland Hills Regional Park	75	75
Non Domestic Rates collection services	71	71
Childcare services	35	3
Sample analysis	35	47
Taxi inspections	32	27
Visually impaired service	29	28
Other	90	112
Payments made to Health Boards in respect of:		
Speech and Language Service	186	177
	1,944	**2,023**
Income		
Receipts from other Local Authorities in respect of:		
Social Work services	203	342
Special Needs pupils	283	356
Audiology service	68	67
Receipts from NHS Lothian in respect of:		
Social Work services	18	19
	572	**784**

Notes to the Core Financial Statements

4. Local Authority (Goods and Services) Act 1970

The Local Authority (Goods and Services) Act 1970 allows the Council to enter into agreements with other public bodies to provide goods and services.

The main activity was:

	2008/09 £000	2007/08 £000
Income from Scottish Water for collection services	210	186

5. Retirement Benefits

Change of accounting policy

Under the 2008 SORP the Council has adopted the amendment to FRS 17, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme are now valued at bid price rather than mid-market value. 2007/08 comparatives are still valued at mid-market value as the difference between bid price and mid-market value is estimated as immaterial by Hymans Robertson LLP, the funds actuary.

Participation in pensions schemes

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

Teachers
The Scottish Teachers Superannuation Scheme is an unfunded scheme administered by the Scottish Government. The scheme is excluded from the accounting requirements of FRS 17 as it is a national scheme which does not allow for the identification of pension liabilities consistently and reliably between participating authorities. The accounts, therefore, only include the payments made by the Council to the scheme in year and do not reflect the estimated pension assets or liabilities of the scheme. The exception to this are payments in relation to unfunded pension enhancements for members of the scheme as they are administered through the Local Government Pension Scheme and are taken into consideration in accounting for pension costs under FRS 17.

In 2008/09 the Council paid £4.594 million (2007/08 £4.532 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 13.5%.

Local Government Pension (Scotland) Scheme
Employees other than teachers are eligible to join the Local Government Pension Scheme. The pension costs charged to services in respect of these employees have been calculated under FRS 17 – Retirement Benefits.

In 2008/09 the Council paid an employee contribution of £9.373 million (2007/08 £9.013 million) into the Lothian Pension Fund, representing 21.3% (2007/08 20.8%) of pensionable pay. This is the expenditure met from government grants and local taxation. Under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. The fund's actuary reported that, at 31 March 2008, the funding level was 85% and that a period of 20 years has been adopted in assessing the level of contribution required to fund that deficiency. The employers contribution in 2008/09 was 330% of employees contributions.

The Council recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

Notes to the Core Financial Statements

Income and Expenditure Account

	2008/09	2007/08
	£000	£000
Net cost of services:		
Current Service Cost	5,898	9,079
Curtailments	0	523
Net operating expenditure:		
Interest cost	16,019	14,214
Expected return on scheme assets	(15,920)	(16,208)
Net charge to Income and Expenditure Account	**5,997**	**7,608**

Statement of Movement in the General Fund Balance

Reversal of net charges made for retirement benefits in accordance with FRS 17	(5,997)	(7,608)
Employers contributions payable to pension fund	9,373	9,013

In addition to the recognised gains and losses included in the Income and Expenditure Account, actuarial losses of £33.280 million (2007/08 gains of £24.730 million) were included in The Statement of Total Recognised Gains and Losses.

<u>Assets and Liabilities in relation to retirement benefits</u>

Reconciliation of present value of the scheme liabilities:

	2008/09	2007/08
	£000	£000
Opening Balance	233,398	260,371
Current Service Costs	5,898	9,079
Interest Cost	16,019	14,214
Contribution by Members	2,675	2,573
Actuarial losses/(gains)	(27,549)	(46,990)
Losses/(gains) on curtailments	0	523
Estimated Unfunded Benefits Paid	(852)	(836)
Estimated Benefits Paid	(9,897)	(5,536)
Balance at 31 March 2009	**219,692**	**233,398**

Reconciliation of fair value of the scheme assets:

	2008/09	2007/08
	£000	£000
Opening Balance	220,625	221,463
Expected return on Assets	15,920	16,208
Contributions by Members	2,675	2,573
Contributions by the Employer	8,521	8,177
Contribution in respect of unfunded benefits	852	836
Acturial gains/(losses)	(60,829)	(22,260)
Unfunded Benefits paid	(852)	(836)
Benefits paid	(9,897)	(5,536)
Balance at 31 March 2009	**177,015**	**220,625**

Notes to the Core Financial Statements

Scheme History

	2008/09	2007/08	2006/07	2005/06	2004/05
	£000	**£000**	**£000**	**£000**	**£000**
Present value of liabilities	(219,691)	(233,398)	(260,371)	(262,508)	(218,519)
Fair Value of Assets	177,015	220,625	221,463	200,785	152,817
Surplus/(deficit)	**(42,676)**	**(12,773)**	**(38,908)**	**(61,723)**	**(65,702)**

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £42.676 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the deficit on the pension fund will be made good by increased contributions over a 20 year period.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the protected unit method, an estimate of the pensions that will be payable in future years are dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by the actuary and are based on the latest full valuation of the scheme as at 31 March 2008.

The main assumptions used by the actuary have been:

	2008/09	2007/08
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.0%	7.7%
Bonds	5.4%	5.7%
Property	4.9%	5.7%
Cash	4.0%	4.8%
Longevity at 65 for current pensions:		
Men (years)	19.8	-
Woman (years)	22.3	-
Longevity at 65 for future pensions:		
Men (years)	21.0	-
Woman (years)	24.0	-
Inflation / Pension Increase Rate	3.1%	3.6%
Salary Increase Rate	4.6%	5.1%
Expected Return on Assets	6.6%	7.2%
Discount Rate	6.9%	6.9%
Take up of options to convert Annual Pension into Retirement Lump Sum	50%	25%

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

	31/03/2009	31/03/2008
Equity Investments	79%	76%
Bonds	11%	9%
Other Assets	10%	15%
	100%	**100%**

Notes to the Core Financial Statements

History of experience gains and losses

The actuarial gains identified as movements in the Pension Reserve in 2008/09 can be analysed into the following categories, measured as a percentage of assets and liabilities at 31 March 2009.

	2008/09	2007/08	2006/07	2005/06	2004/05
	%	%	%	%	%
Differences between the expected and actual return on assets	(34.4)	(10.1)	0.6	15.9	3.0
Experience gains and losses on liabilities	3.6	0.1	0.2	0.5	(0.4)

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

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

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

6. Members' Salaries

The total salaries paid to elected members during the year was £0.331 million (2007/08 £0.388 million).

7. Number of Employees

At the end of the year the Council had 3,722 Full Time Equivalent employees (2007/08 3,690).

8. Employees' Remuneration

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

	2008/09	2007/08
£50,000 to £59,999	25	12
£60,000 to £69,999	13	10
£70,000 to £79,999	4	2
£80,000 to £89,999	0	3
£90,000 to £99,999	5	1
£100,000 to £109,999	1	1
£110,000 to £119,999	0	0

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:

	2008/09	2007/08
	£000	£000
Lothian and Borders Police Board	7,697	7,532
Lothian and Borders Fire Board	2,998	2,190
Lothian Valuation Board	545	556
Lothian Pension Fund	11,195	10,578
Miller Homes for SDL Shares	706	0

Creditors within the Balance Sheet include £0.750 million (2007/08 £0.740 million) due to Lothian Pension Fund.

Notes to the Core Financial Statements

10. Statutory Trading Accounts

The Local Government in Scotland Act 2003 repealed Compulsory Competitive Tendering and set out a requirement for Statutory Trading Accounts to be maintained for Significant Trading Operations and that they should break even over a three-year rolling period. The Council maintains Statutory Trading Accounts for the following three activities which it considers to be Significant Trading Operations. For the rolling period 2006/07 to 2008/09 each of the activities has achieved the required objective.

	2008/09 £000	2007/08 £000	2006/07 £000	Cumulative £000
Building Maintenance				
Turnover	6,339	5,780	6,172	
Surplus/ (Deficit)	397	(202)	176	**371**
Less cost of capital				**(34)**
Revised Surplus				**337**
Roads Maintenance				
Turnover	5,909	5,697	6,627	
Surplus/ (Deficit)	203	207	(34)	**376**
Less cost of capital				**(96)**
Revised Surplus				**280**
Investment Properties				
Turnover	691	788	810	
Surplus / (Deficit)	(58)	640	664	**1,246**
Less cost of capital				**(984)**
Revised Surplus				**262**

The surplus on Statutory Trading Activities identified on the Income and Expenditure Account includes Building Maintenance and Investment Properties totalling £0.339m. In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, Roads Maintenance is included within Net Cost of Services on the Income and Expenditure Account as part of Roads and Transportation Services. The cost of capital is illustrated above but is not reflected in the Income and Expenditure Account.

The loss in the Investment Properties trading account in 2008/09 is due to an impairment of £0.592m in one of its properties. 2006/07 and 2007/08 surpluses for Investment Properties have been restated.

11. Public Private Partnership

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

Under the Dalkeith Campus agreement the Council paid £4.655 million in 2008/09 (2007/08 £4.545 million) and is committed to paying a further £125.476 million (in cash terms assuming a 2.5% increase in inflation index). This equates to £5.114 million per annum over the remaining life of the contract.

Under the Primary Schools agreement the Council paid £4.912 million in 2008/09 (2007/08 £0.665 million) and is committed to paying a further £163.450 million (in cash terms assuming a 2.5% increase in inflation index). This equates to £5.750 million per annum over the remaining life of the contract.

In 2008/09 the Council made an up-front contract payment of £6.331 million for the Primary Schools agreement which serves to reduce annual contract payments for the remainder of the contract. This is treated as a pre-payment in the Balance Sheet with £0.214 million amortised.

Notes to the Core Financial Statements

In accordance with the relevant accounting standards £2.589 million (2007/08 £1.200 million) of the contractual payments have been recognised as a long term debtor, representing the proportion of the contractual payments which are attributable to the asset which will transfer to Council Ownership at the end of the contract period. These long term debtors now total £7.889 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 £0.252 million (2007/08 £0.244 million). No fees were paid in respect of other services provided by the appointed auditor.

13. Equal Pay

Included in the Net Cost of Services is expenditure of £6.006 million (2007/08 £1.623 million) in respect of providing for settlement of Equal Pay claims under the Equal Pay Act 1970. At 31 March 2009 £5.437 million of claims have been settled and an estimate of £8.144 million for outstanding claims has been provided for either in creditors (£1.339 million) or other provisions (£6.805 million).

14. Insurance Provisions

The Council operates an Insurance Fund in accordance with section 13 of the Local Government etc (Scotland) Act 1994 which is earmarked for insurance purposes.

The balance of the fund at 31 March 2008 was £1.779 million and was considered to be greater than necessary to cover likely liabilities. Therefore, no premiums were charged to services during 2008/09 in order to reduce the fund to an appropriate level. The balance of the Insurance Fund at 31 March 2009 is £0.634 million.

A provision for potential uninsured losses arising from claims is also made and this amounted to £0.158 million at 31 March 2008 and £0.340 at 31 March 2009 and is shown in other provisions.

15. Landfill Allowance Trading Scheme

In 2008/09 the Council sent 18,406 tonnes of biodegradable municipal waste to landfill, 4,665 tonnes less than the Council's allowance of 23,071 tonnes. In Scotland the landfill penalty scheme has been suspended and the trading of allowances has not commenced. Consequently, the value of surplus allowances cannot be measured and is not recognised as an asset in the Council's accounts.

Notes to the Core Financial Statements

16. Capital Expenditure

2007/08 £000	Service Summary of Gross Capital Expenditure	2008/09 £000
	General Fund Services:	
6,818	Education	22,635
5,180	Social Work	765
4,915	Roads and Transportation Services	2,614
249	Planning and Development Services	390
1,622	Cultural and Related Services	218
5,874	Other Services	2,075
24,658	**General Fund Services Total**	**28,697**
28,409	**Housing Revenue Account**	**42,697**
53,067	**Total Capital Expenditure**	**71,394**

2007/08 £000	Analysis of Capital Expenditure and Capital Financing	2008/09 £000
	Fixed Assets:	
6,158	Site and Building Acquisitions	6,068
34,049	Building Works	50,538
4,915	Road Works	2,614
3,889	Professional Fees	6,501
1,608	Vehicles and Plant	728
1,248	Other	2,356
51,867	**Fixed Assets Total**	**68,805**
1,200	Dalkeith Schools Campus Residual Asset	1,200
0	Midlothian Primary Schools Residual Asset	1,389
53,067	**Gross Capital Expenditure Total**	**71,394**
	Capital Financing:	
5,409	Capital Receipts – Sale of Council Houses	4,076
15,406	Government Grants	6,098
3,304	Contribution from Other Bodies	2,035
453	Other receipts	506
1,231	Revenue Contributions to Capital	2,375
27,264	Advances from Loans Fund	56,090
0	Transfer from Capital Fund	214
53,067	**Capital Financing Total**	**71,394**

Notes to the Core Financial Statements

17. 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.

2007/08 £000	Capital Receipts from the disposal of fixed assets	2008/09 £000
	Gross Capital Receipts during year:	
5,409	Sale of Council Houses	4,076
3,711	Other Land and Buildings	1,253
11	Rights over Land	86
97	Vehicles	35
9,228	**Gross Capital Receipts Total**	**5,450**
	Capital Receipts:	
5,409	Utilised in the year	4,076
3,819	Retained and transferred to the Capital Fund	1,374
9,228	**Capital Receipts Applied Total**	**5,450**

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

The most recent results of the company are as follows:

	2008/09 £000	2007/08 £000
Turnover	2	2
Loss	53	45
Retained losses	1,209	1,156
Net assets at end of year	(519)	(467)

Shawfair Developments Limited
Midlothian Council has a 50% shareholding in Shawfair Developments Limited, having its registered office at City Chambers, High Street, Edinburgh. The purpose of the company is to provide a vehicle to develop its shareholders' interest in the South-East Wedge. The Council's shareholding comprises 100 £1 "A" shares. During 2008/09 the Council increased its shareholding from 37.5% to 50% by purchasing 25 shares from Miller Homes.

The Income and Expenditure Account has been charged with £2.363 million which reflects the Council's share of the retained losses of SDL. It is still expected that in the longer term these costs will be recovered from the eventual sale of the Shawfair landholding.

The most recent results of the company are as follows:

	2008/09 £000	2007/08 £000
Turnover	32	0
Loss	2,382	277
Retained losses	4,299	1,934
Net assets at end of year	(4,299)	(1,934)

Notes to the Core Financial Statements

19. Long Term Investments

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

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

The most recent results of the company are as follows:

	Year to 31 December 2008 £000	**Year to 31 December 2007 £000**
Turnover	103,576	99,477
Profit before taxation	979	10,200
Taxation	(92)	(449)
Profit after taxation	1,071	10,649
Ordinary dividend	2,198	2,198
Transfer to / (from) reserves	(1,127)	8,451
Net assets at end of year	43,596	54,917

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

Notes to the Core Financial Statements

20. Movement in Fixed Assets

	Houses £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Non Operational Assets £000	Total £000
Restated Gross Book value as at 31 March 2008	**392,950**	**200,857**	**16,239**	**32,282**	**728**	**103,699**	**746,755**
Additions	21,828	2,517	1,557	2,765	2	39,818	68,487
Disposals	(4,383)	(139)	(429)	0	0	(1,043)	(5,994)
Revaluations and Restatements	18,458	10,436	0	0	86	(4,791)	24,189
Impairments	0	(9,414)	0	0	(10)	(2,216)	(11,640)
Reclassifications	17,591	18,161	506	(1,712)	3	(34,549)	0
Gross Book value at 31 March 2009	**446,444**	**222,418**	**17,873**	**33,335**	**809**	**100,918**	**821,797**
Restated Depreciation as at 31 March 2008	**(5,209)**	**(31,127)**	**(8,001)**	**(10,108)**	**(2)**	**0**	**(54,447)**
Depreciation for the year	(10,372)	(12,016)	(2,668)	(1,957)	(1)	0	(27,014)
Write back depreciation on upward revaluations	8,877	15,209	0	0	0	0	24,086
Write back depreciation on impairments	0	3,243	0	0	0	0	3,243
Write back depreciation on disposals	2	15	414	0	0	0	431
Depreciation as at 31 March 2009	**(6,702)**	**(24,676)**	**(10,255)**	**(12,065)**	**(3)**	**0**	**(53,701)**
Net book value as at 31 March 2008	**387,741**	**169,730**	**8,238**	**22,174**	**726**	**103,699**	**692,308**
Net book value as at 31 March 2009	**439,742**	**197,742**	**7,618**	**21,270**	**806**	**100,918**	**768,096**

Non Operational Assets

	Assets Under Construction £000	Investment Properties £000	Surplus Assets £000	Total £000
Gross Book value as at 31 March 2008	**45,165**	**30,193**	**28,341**	**103,699**
Additions	38,862	205	751	39,818
Disposals	0	(743)	(300)	(1,043)
Revaluations and Restatements	104	(4,723)	(172)	(4,791)
Impairments	0	(1,317)	(899)	(2,216)
Reclassifications	(32,641)	1,157	(3,065)	(34,549)
Gross Book Value at 31 March 2009	**51,490**	**24,772**	**24,656**	**100,918**
Net Book Value as at 31 March 2008	**45,165**	**30,193**	**28,341**	**103,699**
Net Book Value as at 31 March 2009	**51,490**	**24,772**	**24,656**	**100,918**

Notes to the Core Financial Statements

21. 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	29,367	6,450	17,873	33,335	186	51,041	138,252
Valued at Current Value in:							
2008/09	416,980	100,447	-	-	-	12,752	530,179
2007/08	97	46,922	-	-	623	28,548	76,190
2006/07	-	2,453	-	-	-	769	3,222
2005/06	-	22,382	-	-	-	1,540	23,922
2004/05	-	43,764	-	-	-	6,268	50,032
Total	**446,444**	**222,418**	**17,873**	**33,335**	**809**	**100,918**	**821,797**

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

Valuations were carried out at 1st April 2008 giving a total revaluation of £39.878 million. Land, operational and non-operational properties have been valued on the basis of net realisable value in existing use or at net current replacement cost. Community and infrastructure assets are valued at depreciated historic cost. Vehicles, plant and equipment have been valued at depreciated historic cost.

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

The depreciation provision at the year end was £53.701 million (2007/08 £55.100 million). Downward revaluations of fixed assets have offset previous upward revaluations held in the Revaluation Reserve. Where there are no previous upwards revaluations or the balance in the Revaluation reserve is insufficient downward revaluations been charged to the Income and Expenditure Account.

22. Commitments under Capital Contracts

At the end of the year, the Council was contractually committed to capital works which amounted to approximately £9.620 million (2007/08 £26.083 million).

23. Analysis of net assets employed

	2008/09 £000	2007/08 £000
General Fund	192,324	215,146
Housing Revenue Account	335,122	327,509
Total	**527,446**	**542,655**

Notes to the Core Financial Statements

24. Information on number of assets held

	As at 31 March 2009	As at 31March 2008
Council Houses	**6,382**	**6,065**
Operational Buildings		
- Social Work Homes etc	10	10
- Leisure Centres	11	12
- Libraries	9	9
- Nursery Schools	5	5
- Primary Schools	22	22
- Secondary Schools	4	4
- Offices	24	23
- Depots	5	5
- Car Parks	11	10
Operational Equipment		
- Vehicles & Plant	400	387
Infrastructure Assets		
- Highways (km)	646	642
- Bridges	215	209
- Footpaths (km)	635	632
Community Assets		
- Parks	43	43
- Cemeteries	28	28

25. Intangible Assets

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

Notes to the Core Financial Statements

26. Debtors

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

2007/08 £000	2007/08 £000		2008/09 £000	2008/09 £000
21,462		Council Tax and Community Charge	21,971	
(20,741)		Less: bad debt provision	(21,016)	
	721			955
1,947		Non Domestic Rates	2,560	
(1,637)		Less: bad debt provision	(1,821)	
	310			739
1,528		House Rents	1,574	
(320)		Less: bad debt provision	(428)	
	1,208			1,146
	635	Grants		55
10,090		External Debtor accounts and other Income due	7,742	
(873)		Less: bad debt provision	(1,067)	
	9,217			6,675
	2,326	VAT Recoverable		1,715
	14,417	**Net Debtors**		**11,285**

27. Creditors

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

2007/08 Restated £000		2008/09 £000
4,788	Payroll Costs Due	6,073
6,996	Payments due under Capital Contracts	4,932
19,699	Sundry Creditors	17,145
31,483	**Total Creditors**	**28,150**

28. Other Provisions

These include a provision of £0.340 million (2007/08 £0.158 million) in respect of the self-insured element of public and employers' liability claims, a provision of £0.932 million (2007/08 £0.376 million) in respect of accumulated losses of subsidiaries and a provision of £6.806 million (2007/08 £3.360 million) for equal pay claims.

29. Long Term Debtors

Long Term Debtors within the Balance Sheet include £7.889 million (2007/08 £5.300 million) in respect of the element of the annual payment for the Dalkeith Campus Project and the Primary Schools project, which is, in effect, payment for the assets. The current value is estimated at £35.0 million for Dalkeith Campus and £41.2 million for the Primary Schools project. The assets will transfer to the Council at the end of the contract period.

The Council made a prepayment of £6.331 million for the Primary Schools project which will be written down over the duration of the contract. In 2008/09 £0.214 million of this was amortised.

Notes to the Core Financial Statements

30. 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
Capital Adjustment Account	(435,880)	0	18,096	**(417,784)**
Revaluation Reserve	(100,843)	(48,275)	6,370	**(142,748)**
Pension Reserve	12,773	33,280	(3,377)	**42,676**
Financial Instruments Adjustment Account	4,336	(852)	646	**4,130**
Available-for-sale Financial Instruments Reserve	0	(612)	0	**(612)**
Insurance Fund	(1,779)	0	1,145	**(634)**
Capital Fund	0	1,374	(1,374)	**0**
Useable Capital Receipts Reserve	0	(5,450)	5,450	**0**
Housing Revenue Account	(9,498)	0	(854)	**(10,352)**
General Fund Reserve	(11,764)	35,744	(26,102)	**(2,122)**
Total	**(542,655)**	**15,209**	**0**	**(527,446)**

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

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

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

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

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

The Insurance Fund is earmarked for insurance purposes.

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

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

The Housing Revenue Account Reserve represents the accumulated balance on the Housing Revenue Account at 31 March 2009.

The General Fund Reserve represents the accumulated balance on Midlothian Council Revenue Account at 31 March 2009.

Notes to the Core Financial Statements

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

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

The main funds are:

	As at 31.03.09	As at 31.3.08
	£000	£000
Dalkeith Common Good	24	64
Penicuik Common Good	5	8
Community Mining Funds	128	125
Other Funds	86	84
Total	**243**	**281**

The funds do not represent assets of the Council and are included in the Balance Sheet as creditors except the Community Mining Funds which are held in separate bank accounts.

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

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

The combined value at 31 March 2009 of these bequests is £5,986.89. Details of movements during 2008/09 are shown below:

	Balance at 31 March 2008	Expenditure in 2008/09	Income in 2008/09	Balance at 31 March 2009
Name	£	£	£	£
Sir Samuel Chisholm Bequest	1,184	55	109	1,238
Fraser Hogg Bequest	4,553	261	269	4,561
Macfie Hall Trust	250	0	0	250

32. Devolved School Management

The net amount of balances to be recovered from schools under the scheme is £0.192 million (2007/08 £0.395 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

33. Finance Leases

There are no finance leases included in the balance sheet at 31 March 2009.

34. Contingent Liability

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

Notes to the Core Financial Statements

35. Financial Instruments

The Statement of Recommended Practice 2007 (SORP) required a major change of accounting policy to be implemented with effect from 1 April 2007. This change required that most financial instruments must, in 2007/08 and future years, be valued at amortised cost using the effective interest rate (EIR) method.

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

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

Financial Instrument Balances

	Long Term 31.3.09 £000	Long Term 31.3.08 £000	Current 31.3.09 £000	Current 31.3.08 £000
Borrowings				
Financial Liabilities at amortised cost	141,306	153,429	36,792	3,420
Investments				
Loans and Receivables			39,806	73,949

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

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

The long term figures shown above are based on paragraph B12 of SORP 2008 which states that in undertaking EIR calculations the maturity period of a LOBO should be taken as being the contractual period to maturity.

Gains and Losses on Financial Instruments

There were gains of £0.852 million on financial instruments and of £0.612 million on available for sale financial assets recognised in the Income and Expenditure Account and Statement of Total Recognised Gains Losses arising during the year.

Fair Value of Assets and Liabilities Carried at Amortised Cost

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

The fair value of an instrument is determined by calculating the Net Present Value of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

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

Notes to the Core Financial Statements

The rates quoted in this valuation were obtained by our treasury management consultants from the market on 31st March 2009, using bid prices where applicable.

The calculations are made with the following assumptions:

- For PWLB debt, the discount rate used is the rate for new borrowing as per rate sheet number 072/09 issued by PWLB on 31st March 2009;
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender;
- Interpolation techniques have been used between available rates where the exact maturity period was not available;
- No early repayment or impairment is recognised;
- Fair values have been calculated for all instruments in the portfolio, but only those which are materially different from the carrying value are disclosed;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Fair values of liabilities are calculated as:

	31.3.09 Carrying Amount £000	**31.3.09 Fair Value £000**	**31.3.08 Carrying Amount £000**	**31.3.08 Fair Value £000**
Borrowings				
PWLB	142,188	146,288	134,312	135,611
LOBO	20,905	21,015	20,865	20,567
European Investment Bank	23	28	41	46
Bank Overdraft	275	275	1,352	1,352
Short term borrowing	14,706	14,730	3,363	3,363
Total	**178,097**	**182,336**	**159,933**	**160,939**

Short Term borrowing as shown in the Balance Sheet of £35.611 million includes LOBO's and comprises accrued interest of £0.786m and principal to be repaid within 12 months of £34.825m. Accrued interest for LOBO's of £0.258m is included in borrowing repayable within a period in excess of 12 months.

Fair values of assets are calculated as:

	31.3.09 Carrying Amount £000	**31.3.09 Fair Value £000**	**31.3.08 Carrying Amount £000**	**31.3.08 Fair Value £000**
Investments				
Cash	79	79	34,908	34,908
Deposits with Banks and Building Societies	39,727	39,950	39,041	39,010
Total	**39,806**	**40,029**	**73,949**	**73,918**

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

The Council's management of treasury risks actively works to minimize the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

Notes to the Core Financial Statements

Credit Risk
Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks and building societies whose credit rating is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount for each institution. The Council also has a policy of limiting deposits with institutions to a maximum of £20m and a limit on the maximum size of one transaction in placing a deposit of £10m.

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

	Amounts at 31 March 2009 £000	**Historical experience of default %**	**Historical experience adjusted for market conditions as at 31 March 2008 %**	**Estimated maximum exposure to default and non collectable amounts £000**
Deposits with banks and other financial institutions	39,806	0	0	0

No credit limits were exceeded during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

Age Analysis

	31 March 2009 £000
Less than 3 months	29,806
3 to 6 months	0
6 months to 1 year	10,000
More than 1 year	0
Total	**39,806**

Liquidity Risk
The Council has access to a facility to borrow from the PWLB. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council has safeguards in place to ensure that a significant proportion of its borrowing does not mature for repayment at any one time in the future to reduce the financial impact of re-borrowing at a time of unfavourable interest rates.

Notes to the Core Financial Statements

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

At 31 March 2009 £000	Loans Outstanding	At 31 March 2008 £000
141,408	PWLB	133,426
20,000	Market Debt	20,000
14,702	Temporary Borrowing	3,363
21	Other	39
176,131	**Total**	**156,828**
34,826	Less than 1 year	3,399
26	Between 1 and 2 years	24
30,086	Between 2 and 5 years	10,085
2,144	Between 5 and 10 years	2,137
109,049	More than 10 years	141,183
176,131	**Total**	**156,828**

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

Market Risk

The Council is exposed to interest rate risk in two different ways; the first being the uncertainty of interest paid or received on variable rate instruments, and the second being the affect of fluctuations in interest rates on the fair value of an instrument.

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

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

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

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

According to this assessment strategy, at 31 March 2009, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

Notes to the Core Financial Statements

Interest Rate Risk

	£000
Increase in interest payable on variable rate borrowings	45
Increase in interest receivable on variable rate instruments	530
Increase in government grant receivable for financing costs	0
Impact on Income and Expenditure Account	**485**
Share of overall impact credited to the HRA	**167**
Decrease in fair value of “available for sale” investment assets	0
Impact on Statement of Recognised Gains and Losses	**0**

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

Price Risk

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

Foreign Exchange Risk

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

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

	2008/09 £000	**2008/09 £000**
Deficit on the Income and Expenditure Account		31,668
Non cash items:		
Depreciation, downward revaluations and impairments	(35,412)	
Other non cash items	913	
Movement in Stocks	(51)	
Movement in Long Term Debtors	(6,663)	
Movements in Net Debtors	3,132	
Movement in Creditors	(3,333)	
Movement in Other Provisions	7,544	
		(33,870)
Net Cash inflow from Revenue Activities		**(2,202)**

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

	2008/09 £000
(Increase) / Decrease in Cash and Bank in year	19,786
(Increase) / Decrease in Liquid Resources	13,284
(Increase) / Decrease in Debt in year	21,672
Increase in Net Debt in year	**54,742**

Analysis of Net Debt	**31.03.08**	**31.03.09**	**Movement**
Investments	(53,005)	(39,721)	13,284
Cash and Bank	(20,994)	(132)	20,862
Short Term Borrowing	314	35,611	35,297
Bank Overdraft	1,352	276	(1,076)
Long Term Borrowing	155,183	141,558	(13,625)
Total Debt	**82,850**	**137,592**	**54,742**

Notes to the Core Financial Statements

38.	Management of Financing	31.03.08	31.03.09	Movement
	Short Term Borrowing	314	35,611	35,297
	PWLB Loans	140,128	121,288	(18,840)
	Long Term – Market	15,000	20,905	5,905
	European Investment Bank	55	18	(37)
	Net Financing – per Cash Flow Statement	**155,497**	**177,822**	**22,325**

39.	Analysis of Government Grants	2008/09 £000	2008/09 £000
	Scottish Government Grant		116,884
	DWP Benefit Subsidy		18,640
	Other Government Grants:		
	Criminal Justice	927	
	Social Work Training	23	
	Employment Initiatives	488	
	Sheltered Employment	51	
	Fairer Scotland Fund	620	
	Determined to Succeed	244	
	Education Grants	845	
	Other Grants	2,396	5,594
			141,118

Housing Revenue Account Income and Expenditure Account

For the year ended 31 March 2009

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

2007/08		2008/09	per house per week
£000		£000	£
	Income		
13,533	Gross dwelling rents	13,927	43.03
368	Non dwelling rents	381	1.18
698	Other Income	308	0.95
14,599		**14,616**	**45.16**
	Expenditure		
5,014	Repairs and Maintenance	5,855	18.09
3,679	Supervision and Management	4,009	12.39
8,731	Depreciation and Impairment of Fixed Assets	10,486	32.40
2,245	Other Expenditure	1,613	4.98
52	Increase / (Decrease) in Bad Debt Provision	133	0.41
19,721		**22,096**	**63.70**
5,122	**Net Cost of HRA services per the whole authority Income and Expenditure Account**	**7,480**	**23.11**
95	HRA share of Corporate and Democratic Core	225	0.70
5,217	**Net Cost of HRA Services**	**7,705**	**23.81**
	HRA share of the operating income and expenditure included in the whole authority accounts		
102	Loss / (Gain) on sale of HRA fixed assets	306	0.95
649	Interest Payable and similar charges	1,990	6.15
(469)	Interest and Investment Income	(638)	(1.97)
(143)	Pensions Interest Cost and Expected Return on Pension Asset	7	0.02
5,356	**Deficit / (Surplus) for the year on the HRA Services**	**9,370**	**28.95**

Statement of Movement on the HRA Balance for the Year ended 31 March 2009

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.

2007/08		2008/09	per house
£000		£000	per week
5,356	Deficit for the year on the HRA Income & Expenditure Account	9,370	28.95
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
(102)	Gain/(loss) on sale of HRA fixed assets	(306)	(0.95)
(8,441)	Transfer to/(from) Capital Adjustment Account	(9,959)	(30.77)
1,000	Transfer to/(from) General Fund	0	0
(44)	HRA share of contributions to/from pension reserve	41	0.13
(2,231)	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**(854)**	**(2.64)**
(7,267)	Housing Revenue Account Balance brought forward	**(9,498)**	**(29.35)**
(9,498)	**Housing Revenue Account Balance carried forward**	**(10,352)**	**(31.99)**

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 2009 the Council had 6,382 houses (31 March 2008 6,065) which can be analysed as follows:

Type of Dwelling	2008/09 Number	2007/08 Number
1 Bedroom	781	779
2 Bedroom	3,616	3,430
3 Bedroom	1,701	1,588
4 Bedroom	279	263
5 / 6 Bedroom	5	5
Total	**6,382**	**6,065**

3. Rent Arrears

At the end of the year rent arrears amounted to £1.574 million (2007/08 £1.528 million) for which a provision for bad and doubtful debts of £0.428 million (2007/08 £0.320 million) exists.

Council Tax Income Account

For the Year ended 31 March 2009

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.

2007/08		**2008/09**
£000		**£000**
40,689	Gross Council Tax levied	41,411
	Less :	
4,403	Discounts	4,460
1,081	Provision for bad & doubtful debts	1,101
(126)	Council Tax Benefits (net of Government Grant)	(51)
35,331		**35,901**
409	Adjustments to previous years	358
35,740	**Net Council Tax income for the Year**	**36,259**

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	1,032	12,015	9,957	4,104	4,152	2,287	1,569	161	35,277
Disabled relief	49	4	(19)	(6)	(11)	(4)	(13)	0	0
Less									
Exemptions	74	454	221	62	179	39	28	8	1,065
Discounts (25%)	154	1,325	779	263	198	78	39	5	2,841
Discounts (50%)	4	16	15	6	6	3	3	0	53
Other Discounts	5	14	17	6	6	3	3	1	55
Effective properties	844	10,210	8,906	3,761	3,752	2,160	1,483	147	31,263
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D equivalents	563	7,941	7,916	3,761	4,586	3,120	2,472	294	30,653
Contributions in lieu – Band D equivalents									236
Total									**30,889**
Provision for non payment									(927)
Council Tax Base									**29,962**

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

Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Numbers	844	10,210	8,906	3,761	3,752	2,160	1,483	147	31,263
£	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 2009

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.

2007/08		**2008/09**
£000		**£000**
24,888	Gross rates levied	26,722
	Less:	
4,618	Reliefs and other deductions	5,503
14	Interest paid	20
522	Provision for bad & doubtful debts	552
37	Adjustments to previous years	575
19,697	**Net Non Domestic Rate Income**	**20,072**
	Allocated:	
19,756	Contribution to national non-domestic rates pool	20,135
(59)	Midlothian Council	(63)
19,697		**20,072**

Notes

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £30.415 million (2007/08 £28.906 million).

2. Occupiers of non-domestic properties pay rates based on the valuation of the property within the valuation roll for Midlothian. The non-domestic rate poundage is determined by the Scottish Government, and was 45.8p per £, where the rateable value was less than or equal to £29,000 and 46.2p per £ where the rateable value exceeded £29,000. The Small Business Rates Relief Scheme was replaced with the Small Business Bonus Scheme from 1st April 2008 and it provides relief, subject to eligibility, as follows:

Rateable Value	% Relief Available
Up to £8,000	80%
£8,001 to £10,000	40%
£10,001 to £15,000	20%

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

	Number	**Rateable Value £000**
Shops, Offices and Other Commercial Subjects	1,551 (1,499)	31,940 (32,753)
Industrial and Freight Transport	830 (814)	14,062 (12,787)
Miscellaneous (Schools etc)	311 (313)	11,647 (11,280)
	2,692 (2,626)	**57,649 (56,820)**

Group Accounting Policies

1. Introduction
The Code of Practice on Local Authority Accounting in the United Kingdom 2008: 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 partly owned joint venture company. It considers three Joint Boards as Associates.

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

Partly owned joint venture company - The Council has a 50.0% shareholding in Shawfair Developments Limited (SDL). The company, incorporated on 6 June 2001, has its registered office at City Chambers, High Street, Edinburgh, EH1 1YJ. The purpose of the company is to provide a vehicle to develop its shareholders' interests in the South-East Wedge.

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

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

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

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

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

4. Disclosure of Differences with Main Statement of Accounting Policies
The financial statements in the Group Accounts of Midlothian Council are prepared in accordance with the accounting policies set out in pages 4 to 6 with the additions and exceptions shown in the following section.

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

Group Income and Expenditure Account

For the Year ended 31 March 2009

2007/08 Net Expenditure £000	Service	Notes	Gross Expenditure £000	Gross Income £000	2008/09 Net Expenditure £000
87,268	Education Services		104,493	4,390	100,103
40,072	Social Work		52,277	10,391	41,886
10,973	Culture and Related Services		15,545	4,144	11,401
6,756	Roads and Transport Services		10,490	1,241	9,249
7,532	Police Services		8,042	345	7,697
5,969	Environmental Services		9,634	1,753	7,881
3,359	Planning and Development Services		5,243	2,573	2,670
2,190	Fire Services		2,998	0	2,998
5,122	Housing Revenue Account		22,096	14,616	7,480
2,748	Other Housing Services		25,667	16,617	9,050
2,792	Corporate & Democratic Core		4,124	820	3,304
1,197	Central Services to the Public		6,894	1,055	5,839
1,265	Non-distributable Costs		(584)	0	(584)
106	Share of Operating Results of Joint Ventures		909	16	893
714	Share of Operating Results of Associates		(825)	0	(825)
178,063	**Net Cost of Services**		**267,003**	**57,961**	**209,042**
301	(Gains)/Losses on Disposal of Fixed Assets				96
(376)	Net (Surplus)/Deficit on Trading Operations	10			(337)
5,720	Group Interest Payable				6,889
0	Investment Losses	18			72
(2,115)	Group Interest & Investment Income Received				(2,488)
0	Taxation of Group Entities				43
(1,994)	Pensions Interest Cost and Expected Return on Pension Assets	5			99
6,276	Pensions Interest Cost and Expected Return on Pension Assets of Associates				7,011
185,875	**Net Expenditure**				**220,427**
	Income from taxation and general government grants				
(35,740)	Council Tax				(36,259)
(95,966)	Scottish Government Grant				(116,884)
(28,847)	Non-domestic Rates				(30,351)
25,322	**Group Deficit/(Surplus) for the Year**				**36,933**

Reconciliation of the Single Entity Deficit

for the Year to the Group Deficit

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

2007/08 Net Expenditure £000		2008/09 Net Expenditure £000
18,115	**Deficit on the Council's single entity Income and Expenditure Account for the year**	31,668
9	Subsidiary and associate dividend income and any other distributions from group entities included in the single entity surplus or deficit on the Income and Expenditure Account	38
	(Surplus) or deficit arising from other entities included in the group accounts analysed into the amounts attributable to:	
46	- Subsidiaries and Joint Ventures	(1,047)
7,152	- Associates	6,274
25,322	**Deficit for the Year on the Group Income and Expenditure Account**	**36,933**

Group Statement of Total Recognised Gains and Losses

For the Year ended 31 March 2009

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

2007/08 Net Expenditure £000		2008/09 Net Expenditure £000
25,322	**Deficit on the Group Income and Expenditure Account for the year**	**36,933**
(110,056)	Deficit/(Surplus) on the revaluation of fixed assets	(49,945)
(52,257)	Actuarial loss/(gain) on pension assets and liabilities	32,871
3,719	(Gain) / Loss arising on Financial Instruments Adjustment Account	(852)
	Surplus or (Deficit) on Available-for-sale financial assets	(612)
3,260	Other losses/(gains)	2,635
(130,012)	**Total Recognised (Gains) and Losses for the Year**	**21,030**

Group Balance Sheet as at 31 March 2009

2007/08 £000 Restated		Notes	2008/09 £000	2008/09 £000
0	Intangible Assets	25		319
	Tangible Fixed Assets			
	Operational Assets			
387,741	Council Houses	20,21	439,742	
169,730	Other Land and Buildings	20,21	197,742	
8,238	Vehicles, Plant and Equipment	20,21	7,618	
22,174	Infrastructure Assets	20,21	21,270	
726	Community Assets	20,21	806	
588,609				667,178
	Non-operational Assets			
30,193	Investment Properties	20,21	24,772	
45,165	Assets Under Construction	20,21	51,490	
28,341	Surplus Assets, held for disposal	20,21	24,656	
103,699				100,918
350	Long-term Investments	19		962
(94,714)	Investments Share of net Assets of Associates			(100,587)
7,343	Long-term Debtors	11,29		14,006
605,287				**682,796**
	Current Assets			
596	Stocks and Work in Progress		646	
37,855	Debtors	26	35,662	
(23,571)	Less: Bad Debt Provision	26	(24,333)	
14,284	Net Debtors	26	11,329	
53,005	Investments	35	39,738	
20,994	Cash and Bank		272	
88,879				51,985
	Current Liabilities			
314	Borrowing repayable on demand or within 12 months	35	35,611	
31,535	Creditors	27	29,036	
1,352	Bank Overdraft		276	
33,201				64,923
660,965	**Total Assets less Current Liabilities**			**669,858**

Group Balance Sheet as at 31 March 2009

2007/08 £000 Restated		Notes	2008/09 £000	2008/09 £000
155,183	Borrowing repayable within a period in excess of 12 months	35		142,210
44,719	Government and other Grants Deferred			50,726
12,773	Liability related to Defined Benefit Pension Scheme	5		42,676
156	Other Provisions	13,14,28		7,142
448,134	**Total Assets less Liabilities**			**427,104**
	Financed By:			
435,880	Capital Adjustment Account	30		417,784
100,843	Revaluation Reserve	30		142,748
(4,336)	Financial Instruments Adjustment Account	30,35		(4,130)
0	Available-for-sale Financial Instruments Reserve	19,30		612
(12,773)	Pension Reserve	5,30		(42,676)
(99,456)	Share of Pension Reserve of Joint Boards			(107,904)
1,779	Insurance Fund	14,30		634
9,498	Housing Revenue Account Reserve	30		10,352
11,764	General Fund Reserve	30		2,122
(128)	Share of Group Realisable Reserves			642
4,782	Group Other Reserves			6,677
281	Trusts and Bequests	31		243
448,134	**Total Balances and Reserves**			**427,104**

The unaudited accounts were issued on 22 June 2009 and the audited accounts were authorised for issue on 25th September.

Signed:
Ian Jackson,
Director Corporate Services, Midlothian Council

Group Cash Flow Statement

For the Year ended 31 March 2009

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.

2007/08 £000		**2008/09 £000**
(8,855)	**Net cash inflow from revenue activities** (note 1)	**(2,202)**
	Net cash inflow/outflow from servicing of finance	
5,757	Interest paid	7,032
(3,569)	Interest received	(3,270)
	Net cash inflow/outflow from capital activities	
45,476	Purchase of fixed assets	69,399
(9,276)	Sale of fixed assets	(5,494)
(13,186)	Capital grants received	(8,146)
(3,265)	Developer Contributions	(2,020)
(453)	Other capital cash receipts	(506)
12,629	**Net cash inflow/outflow before financing**	**54,793**
	Management of liquid resources	
20,724	Net increase in short term deposits	(12,626)
	Financing	
12,739	Repayment of amount borrowed	32,475
(35,644)	New loans raised	(54,800)
10,448	**Net (Increase)/Decrease in Cash**	**(19,842)**

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		**37,002**
Depreciation, downward revaluations and impairments	(35,411)	
Other Adjustments not involving movement of funds	(4,422)	
Movement in Stocks	(51)	
Movement in Long Term Debtors	(6,663)	
Movement in Net Debtors	3,132	
Movement in Creditors	(3,333)	
Movement in other Provisions	7,544	
Net cash inflow from revenue activities		(2,202)

Notes to the Groups Financial Statements

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

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

Partly owned Joint Venture Company – The Council has a 50% shareholding in Shawfair Developments 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 purpose of the company is to provide a vehicle to develop its shareholders' interest in the South-East Wedge. The Council's shareholding compromises 100 £1 "A" shares. The company was incorporated on 6 June 2001 and has its registered office at City Chambers, High Street, Edinburgh, EH1 1YJ.

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

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

2. Financial Impact of Consolidation
The effect of inclusion of the subsidiary and associates on the group balance sheet is to decrease the net assets and total equity by £100.342 million, the principal reason for the change being the Council's share of the deficit on the associates' Pension Reserves.

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

Independent Auditor's Report

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

I certify that I have audited the financial statements of Midlothian Council and its group for the year ended 31 March 2009 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Accounts, and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 - A Statement of Recommended Practice (the 2008 SORP) are set out in the Statement of Responsibilities for the financial statements.

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

I report my opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Midlothian Council and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

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

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

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

Basis of audit opinion

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

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

Opinion

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of Midlothian Council and its group as at 31 March 2009 and its income and expenditure for the year then ended; and

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

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

25 September 2009

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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

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

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