Midlothian

Midlothian Council
Audited
Financial Statements
2013/14

Financial Statement 2013/14
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Explanatory Foreword by the Head of Finance and Integrated Service Support

Introduction

The Financial Statements present the financial performance of the Council for the year to 31 March 2014. They follow approved accounting standards and are necessarily technical in parts. The purpose of this foreword is to briefly explain the principal items of interest or note within the Statements.

The Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice in the United Kingdom (The Code). There are three main changes to presentation of the statements in 2013/14. The first is the removal of Group Accounts. Police and Fire Reform results in financial reporting moving away from Local Authorities. This leaves only the Lothian Valuation Joint Board and Pacific Shelf 826 Limited as subsidiaries and associates. Due to the small value of transactions for Pacific Shelf 826 Ltd and the relatively small share of net assets of Lothian Valuation Joint Board it was considered unnecessary to provide a full set of group accounts. The second change is that the Council's Office of the Scottish Charity Regulator registered charities shown in previous years have now been de-registered with funds fully disbursed. The third change comes from a change in the Accounting Code on the presentation of Statutory Trading Accounts. There is no longer a requirement to show separately the financial performance of Trading Operations with all costs and income now included in the surplus or deficit on continuing operations.

Financial Statements

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

Statement of Responsibilities for the Financial Statements

This sets out the respective responsibilities of the Council and the Head of Finance and Integrated Support Services (Chief Finance Officer).

Annual Governance Statement

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

Movement in Reserves Statement

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

Comprehensive Income and Expenditure Statement

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

Balance Sheet

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

Explanatory Foreword by the Head of Finance and Integrated Service Support

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

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

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

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

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

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

Financial Performance
The Council's financial performance is presented in the Comprehensive Income and Expenditure Account (CIES) on page 11. This statement has been prepared using International Financial Reporting Standards (IFRS). To show the financial position of the Council it is necessary to adjust the CIES for statutory items that require to be taken into account in determining the General Fund and Housing Revenue Account for the year. These are shown in the Movement in Reserves Statement on page 10 and in more detail in note 5 on pages 35-38.

The outturn position for the General Fund compared to budget is shown in the following table. Full details were reported to Midlothian Council on 24 June 2014 and are available on the Council's website.

Explanatory Foreword by the Head of Finance and Integrated Service Support

Table 1: General Fund – Performance against Budget

Service Area	Net Expenditure £000	Budget £000	(Under) / Overspend £000
Children and Families	14,799	15,970	(1,171)
Communities and Support	5,525	5,574	(49)
Education	70,441	70,707	(266)
Adult and Community Care	36,350	37,021	(671)
Business Transformation	623	635	(12)
Housing and Community Safety	4,818	4,533	285
Commercial Operations	15,305	15,737	(432)
Customer Services	10,141	11,627	(1,486)
Finance and Human Resources	5,537	5,618	(81)
Planning and Development	1,499	1,829	(330)
Properties and Facilities Management	12,814	13,245	(431)
Investment Income	(725)	(589)	(136)
Loan Charges	5,265	6,042	(777)
Other Expenditure / (Income)	(252)	(819)	567
Total Expenditure	**182,140**	**187,130**	**(4,990)**
Council Tax Income	(38,708)	(38,378)	(330)
Scottish Government Grant	(149,860)	(149,860)	0
General Fund Services	**(6,428)**	**(1,108)**	**(5,320)**

General Fund services showed a net underspend against budget of £5.320 million. The main variances were in the following areas:

- An underspend in employee costs across Council Services of £1.277 million reflecting rigorous vacancy control and management;
- One-off income from Housing Benefit Overpayment Recoveries - £0.811 million;
- An underspend in loan charges as a consequence of opportunities afforded by the continuing low interest rate environment - £0.776 million;
- An overspend due to slippage in delivery of planned efficiency savings - £0.761 million;
- An underspend in placements in Residential Schools and Care Homes - £0.740 million;
- An underspend in Assessed Needs for Elderly Care Packages -£0.596 million;
- An underspend in Council Tax Reduction Scheme Payments - £0.337 million;
- An overspend in Homeless presentations resulting in placements - £0.336 million;
- A higher than budgeted Council Tax Income due to a sustained increase in properties in Midlothian - £0.330 million. The in-year collection rate was 93.5%;
- An underspend in non-residential services for children without disabilities of £0.256 million.

Pressures experienced in 2013/14 have been built into the Council's future year budget projections and continue to present a significant financial challenge especially in the context of shrinking public expenditure.

Explanatory Foreword by the Head of Finance and Integrated Service Support

Reserves
The General Fund reserve at the start of the year was £14.083 million, of which £7.681 million was earmarked for specific purposes in 2013/14. The position at 31 March 2014 is a reserve of £20.511 million of which £8.547 million was earmarked for specific purposes leaving £11.964 million as a contingency. The contingency is £5.561 million more than at 31 March 2013 and is above the recognised prudent level of between 2% and 4% of net expenditure which equates to between approximately £4 million and £8 million. However, it is anticipated there will be further one-off costs associated with the Council's transformation programme and the current Voluntary Severance Early Release Scheme. It is also inevitable that there will continue to be some unforeseen financial pressures.

Equal Pay
There remain some financial issues as a result of historic pay inequalities which have continuing implications for the Council's financial strategy. As at 31 March 2014 £11.997 million has either been paid or provided for to meet actual and potential future settlement of claims. This is a reduction of £0.447 million on that provided at 31 March 2013 and is reflected in the General Fund Reserve position.

Housing Revenue Account
The Council has a statutory obligation to maintain a revenue account for its housing provision in accordance with the Housing (Scotland) Act 1987. The Housing Revenue Account (HRA) records all income and expenditure relating to the Council's own housing stock. Revenue expenditure on housing management, repairs and maintenance is funded from rent paid by tenants.

The HRA showed a surplus of £3.701 million in 2013/14 and this increased the reserve to £18.374 million. There was an underspend of £0.641 million against budget with the main contributory factor being lower than expected repairs and maintenance costs due to the continued improvement in the quality of the Council's housing stock as a consequence of ongoing capital investment. This underspend was offset by an increase in voids and irrecoverable which is primarily due to the under occupancy charge implemented as part of Welfare Reform. There is also a slightly lower than projected level of rental income as a consequence of progress with Phase 2 of the New Social Housing Programme.

The council has an ambitious capital investment plan to build new housing stock and continues to improve and upgrade its existing stock, particularly through Scottish Housing Quality Standards (SHQS) improvement works. The majority of this plan is funded through prudential borrowing with the costs of borrowing met from rental income and planned utilisation of the HRA reserve.

In 2013/14 £5.624 million was spent on new council houses and £8.377 million on SHQS improvement works. In the period to 31 March 2017 it is planned to spend a further £37 million on new council houses and £20 million on SHQS improvements.

Capital
The Local Government in Scotland Act 2003 requires that the Council must determine and keep under review how much it can afford to spend on capital projects. In 2013/14 capital expenditure totalled £33.448 million which was £17.344 million on General Services and £16.104 million on HRA.

General Services capital investment covers all areas of the council with the exception of the HRA. The most significant project during the year with £5.590 million being spent was completion of the build of the new Lasswade High School Centre which opened during the year. Other major projects included continued investment in Roads and Lighting of £4.089 million, an extension to Rosewell Primary School of £0.996 million and further development of Penicuik Care Home Hub of £0.815 million.

Explanatory Foreword by the Head of Finance and Integrated Service Support

The main sources of funding were grants of £6.351 million, prudential borrowing of £8.779 million and developer and other contributions of £2.168 million. A full analysis of capital income and expenditure is provided in note 35 to the financial statements on page 59.

The General Services capital plan for future years will see further major investment in school infrastructure including Bilston, Gorebridge North and St Andrews Primary Schools and Newbattle High School. There will also be investment in the roads infrastructure and ongoing asset management replacement plans for buildings, fleet and information technology.

Long-term Borrowing

The council is required, by regulation, to have regard to the Prudential Code when taking capital investment decisions. The key objectives of the code are to ensure, within a clear framework, that the capital plans of local authorities are affordable, prudent and sustainable. Revenue costs arising from long-term borrowing are provided for in revenue budgets.

The council borrowed money throughout the year to meet actual and anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. At 31 March 2014 long term borrowing amounted to £187.969 million. During 2013/14 new long term borrowing of £10 million was taken from the Public Works Loans Board (PWLB). Interest rates on new borrowing were at historically low rates and also benefited from a 0.2% discount that was offered by the Treasury. The average rate of interest paid on external debt increased to 3.68% in 2013/14 from 3.20% in 2012/13 as a consequence of taking more longer term debt whilst market conditions remained favourable. The internal loans fund rate also increased from 3.03% in 2012/13 to 3.46% in 2013/14 but is expected to be one of the lowest amongst Scottish mainland Local Authorities.

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It is not allowed to rise indefinitely and statutory controls exist to ensure debt is affordable and repaid over a reasonable timeframe. The Council's underlying need to borrow for 2013/14 when the budget was set was £270.200 million. Slippage in capital expenditure reduced this to an actual position of £253.163 million. Total debt at 31 March 2014 was £225.993 million.

The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the PWLB. Further details are provided in note 14 to the Financial Statements.

Net Pension Liability

The net pension liability of the Council as at 31 March 2014 was calculated in accordance with the requirements of International Accounting Standard 19 (IAS 19) and amounts to £80.421 million.

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

It should be noted this is a snapshop of the position at 31 March 2014. The actuarial valuation of the Lothian Pension Fund, which takes a longer term view, will consider the appropriate employer's rates and this, together with revenues generated from the Pension Fund investments, will be used to meet the fund's commitments as they arise. The actuarial valuation at 31 March 2011 shows a funding level of 98% of liabilities which is a considerable improvement from 85% funding at the last valuation at 31st March 2008.

Explanatory Foreword by the Head of Finance and Integrated Service Support

Current Economic Climate
The current economic climate impacts on the Council and the services it provides in a number of ways. From a financial perspective 2013/14 saw considerable demographic pressures particularly around elderly care. It is expected that these pressures will be sustained due to the growing elderly population and they present a considerable challenge to the Council in both financing them and transforming services to improve ways of preventing some of these pressures arising.

In addition cuts in the UK Government and the subsequent Scottish Government Budget and grant settlement necessitated a reduction in net expenditure of approximately £7 million in 2013/14. This was achieved through the Council's Transformation Programme with as little impact on front line service delivery as possible. Continued cuts in external funding and continued growth in demand for Council Services provide the Council with a considerable challenge to ensure future expenditure plans are sustainable and achieved with minimal impact on front line service delivery. Latest projections for 2015/16 to 2017/18 show a budget gap of approximately £7.5 million.

During the year Council approved a Financial Strategy for 2015/16 to 2017/18 for the General Fund and a longer term strategy for the General Services Capital Plan. These are crucial in delivering ongoing financial stability for the Council and sit alongside long-term Housing Revenue Account plans.

Emerging Future Year Consideration
During the year it was established there was excessive Carbon Dioxide levels present in some Council Houses at the Newbyres Development in Gorebridge. There is an ongoing investigation into the circumstances around this situation occurring and Council have been presented with two possible options which provide a sufficient guarantee on the public health of residents. Both of which involve demolition and will therefore impact on future years Housing Revenue Account plans and the carrying value of the assets.

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

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

Gary Fairley
Head of Finance and Integrated Service Support

30 September 2014

Statement of Responsibilities for the Financial Statements

The Council's Responsibilities

The Council is required:

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

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

In preparing this statement of accounts, the Head of Finance and Integrated Service Support has:

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

The Head of Finance and Integrated Service Support has also:

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

These Financial Statements present a true and fair view of the financial position of the Council at 31 March 2014 and its income and expenditure for the year then ended.

Signed:

Gary Fairley
Head of Finance and Integrated Service Support
30 September 2014

Annual Governance Statement

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

Elected Members and senior management are responsible for the governance of the business affairs of Midlothian Council. This includes: setting the strategic direction, vision, culture and values of the Council; establishing appropriate and cost effective systems, processes and internal controls to allow the strategic objectives to be delivered.

In order to achieve this, the Council has developed a Code of Corporate Governance based on the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives' (SOLACE) framework. The Code was reviewed and updated in 2013. The Council also has a number of officials in statutory posts who monitor governance and the supporting processes during the year. These are the Head of the Paid Service, the Monitoring Officer, the Chief Finance Officer and the Chief Social Work Officer.

Each year, using an assurance template, evidence is gathered relating to the governance framework and the level of compliance with the code. This includes all 8 Heads of Service completing a self assessment. Internal Audit check a sample of the control elements in the Code of Corporate Governance so that each is tested on a three year cycle to determine their effectiveness. Any areas for improvement that are identified through this check are recorded in the governance improvements section of the AGS below. Furthermore, the assurance elements are, where necessary, discussed with senior management.

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

The governance elements include:

allocating responsibility for maintenance of proper financial records and accounts and for maintaining effective systems of internal control; appointing a Monitoring Officer with responsibility to ensure that the Council, its Officers, and its Elected Members, maintain the highest standards of conduct; establishing a scheme of delegated powers; establishing and enforcing a code of conduct for officers; having effective scrutiny and challenge arrangements in place over officer and Council decisions; open and effective recording of Council decisions, risk management processes, whistle blowing and fraud prevention procedures and processes, providing induction and training for Elected Members and Council officers and encouraging individuals from all sections of the community to engage with the Council.

A review of the evidence was undertaken and resulted in an opinion on the level of governance within the Council.

A number of governance improvements were highlighted in the 2012-13 self assessment and progress has been made in 2013-14 on the following:

Arms Length Bodies and Following the Public Pound through the completion of an Internal Audit Report and development of a management action plan; delivering improved services and processes at reduced cost through the Business Transformation Programme; embedding the Single Midlothian Plan and associated corporate priorities; supporting changes in ICT and building rationalisation, conducting structured testing of ICT Business Recovery Plans; supporting Elected Member capacity through an Elected Member training programme; and developing local action plans and assessing the impact of the new Welfare Reform Act on Council services and Midlothian citizens.

Annual Governance Statement

Whilst underway, some of these actions have not yet been fully concluded, e. g the Business Transformation Programme; Welfare Reform; and fully embedding Information Management processes and controls within the Council.

The following areas of improvement have also been identified and are to be progressed in 2014 -15:

- achievement of the key priorities of economic recovery and business growth; positive destinations for young people; and early years – getting it right for every Midlothian child;
- embedding the new management structure and ensuring that appropriate controls and segregations are maintained;
- the Business Transformation Programme and mechanisms to ensure that the necessary financial savings are achieved and more efficient processes are introduced at reduced cost;
- continued development of risk management processes by aligning risk assessments with service planning and mitigation of risks associated with delivering the Council's outcomes;
- procurement reform arising from the Procurement Reform Bill and new EU Directives;
- continued compliance with the Public Services Network code of connection requirements; and further Welfare Reform changes.

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

Signed:

Owen Thompson, Leader of the Council **Kenneth Lawrie, Chief Executive**

30 September 2014

Movement in Reserves Statement

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

2012/13 – Previous Year Comparative	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Repairs and Renewals Fund £000	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
Opening Balances at 1 April 2012	**(14,220)**	**(11,709)**	**(9,435)**	**(2,004)**	**(37,368)**	**(376,261)**	**(413,629)**
Movement in Reserves during 2012/13							
(Surplus) or deficit on provision of services	14,641	1,127	0	0	15,768	0	**15,768**
Other Comprehensive Expenditure and Income	0	0	0	0	0	**6,057**	**6,057**
Total Comprehensive Expenditure and Income	**14,641**	**1,127**	**0**	**0**	**15,768**	**6,057**	**21,825**
Adjustments between accounting basis and funding basis under regulations (note 5)	**(14,775)**	**(4,091)**	**1,904**	**0**	**(16,962)**	**16,962**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(134)**	**(2,964)**	**1,904**	**0**	**(1,194)**	**23,019**	**21,825**
Transfers to / from Other Statutory Reserves	271	0	0	(271)	0	0	0
Increase / Decrease in 2012/13	**137**	**(2,964)**	**1,904**	**(271)**	**(1,194)**	**23,019**	**21,825**
Balance at 31 March 2013 carried forward	**(14,083)**	**(14,673)**	**(7,531)**	**(2,275)**	**(38,562)**	**(353,242)**	**(391,804)**

2013/14 – Current Financial Year	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Repairs and Renewals Fund £000	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
Opening Balances at 1 April 2013	**(14,083)**	**(14,673)**	**(7,531)**	**(2,275)**	**(38,562)**	**(353,242)**	**(391,804)**
Movement in Reserves during 2013/14							
(Surplus) or deficit on provision of services	16,162	79,205	0	0	**95,367**	**0**	**95,367**
Other Comprehensive Expenditure and Income	0	0	0	0	**0**	**(14,893)**	**(14,893)**
Total Comprehensive Expenditure and Income	**16,162**	**79,205**	**0**	**0**	**95,367**	**(14,893)**	**80,474**
Adjustments between accounting basis and funding basis under regulations (note 5)	**(22,868)**	**(82,906)**	**(3,127)**	**0**	**(108,901)**	**108,901**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(6,706)**	**(3,701)**	**(3,127)**	**0**	**(13,534)**	**94,008**	**80,474**
Transfers to / from Other Statutory Reserves	278	0	0	(278)	**0**	**0**	**0**
Increase / Decrease in 2013/14	**(6,428)**	**(3,701)**	**(3,127)**	**(278)**	**(13,534)**	**94,008**	**80,474**
Balance at 31 March 2014 carried forward	**(20,511)**	**(18,374)**	**(10,658)**	**(2,553)**	**(52,096)**	**(259,236)**	**(311,332)**

Comprehensive Income and Expenditure Statement

For the year ended 31 March 2014

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

2012/13 Gross Expenditure **£000**	2012/13 Gross Income **£000**	Restated 2012/13 Net Expenditure **£000**	**Continuing Operations**	Notes	2013/14 Gross Expenditure **£000**	2013/14 Gross Income **£000**	2013/14 Net Expenditure **£000**
89,496	3,017	86,479	Education Services		95,162	2,905	92,257
60,129	12,698	47,431	Social Work		60,446	13,604	46,842
16,274	4,294	11,980	Culture and Related Services		14,614	4,784	9,830
12,959	459	12,500	Roads and Transport Services		9,808	409	9,399
6,185	266	5,919	Police Services		(71)	0	(71)
8,678	1,530	7,148	Environmental Services		9,188	1,512	7,676
8,018	2,629	5,389	Planning and Development Services		5,556	2,267	3,289
2,155	0	2,155	Fire Services		0	0	0
23,050	25,829	(2,779)	Housing Revenue Account		96,762	22,310	74,452
40,170	30,837	9,333	Other Housing Services		40,989	31,787	9,202
4,889	998	3,891	Corporate & Democratic Core		3,782	103	3,679
1,671	476	1,195	Central Services to the Public		(638)	906	(1,544)
1,303	0	1,303	Non-distributable Costs	6	3,934	0	3,934
274,977	**83,033**	**191,944**	**Deficit on Continuing Operations**		**339,532**	**80,587**	**258,945**
		(216)	Other Operating Expenditure	7			3,670
		14,812	Financing and Investment Income and Expenditure	8			15,906
		(190,772)	Taxation and Non-Specific Grant Income	9			(183,154)
		15,768	**(Surplus) or Deficit on Provision of Services**				**95,367**
		(2,454)	(Surplus) or Deficit on revaluation of non current assets				(21,633)
		9,361	Remeasurement of the net defined benefit liability	39			10,441
		(850)	Other (Gains) / Losses				(3,701)
		6,057	**Other Comprehensive (Income) and Expenditure**				**(14,893)**
		21,825	**Total Comprehensive (Income) and Expenditure**				**80,473**

Balance Sheet

As at 31 March 2014

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

Restated 31st March 2013 £000		**Notes**	**31st March 2014 £000**
717,571	Property, Plant and Equipment	10	648,713
350	Intangible Assets	11	220
30	Heritage Assets	13	30
962	Long Term Investments	15	4,456
2,275	Long Term Debtors	17	4,653
723,184	**Long Term Assets**		**658,072**
29,247	Short Term Investments	14	0
5,100	Assets held for Sale	12	5,770
811	Inventories	16	1,182
21,550	Short Term Debtors	17	17,376
8,607	Cash and Cash Equivalents	18	36,520
65,315	**Current Assets**		**60,848**
34,660	Short Term Borrowing	14	40,781
26,174	Short Term Creditors	19	27,834
1,767	Provisions	20&21	1,129
9,893	Grants Receipts in Advance	33	12,153
72,494	**Current Liabilities**		**81,897**
197,993	Long Term Borrowing	14	187,969
124,212	Other Long Term Liabilities	22	137,722
322,205	**Long Term Liabilities**		**325,691**
391,804	**Net Assets**		**311,332**
38,562	Usable Reserves	5&23	52,096
353,242	Unusable Reserves	5&24	259,236
391,804	**Total Reserves**		**311,332**

Signed:

Gary Fairley
Head of Finance and Integrated Service Support
30 September 2014

Cash Flow Statement

For the year ended 31 March 2014

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 represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Restated 2012/13 £000	**Revenue Activities**	**Notes**	**2013/14 £000**
(15,768)	**Net surplus or (deficit) on the provision of services**		**(95,367)**
52,560	Adjustment to surplus or deficit on the provision of services for non cash movements	25	130,539
(29,155)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	(16,840)
7,637	**Net Cash Flows From Operating Activities**		**18,332**
(15,989)	Net cash flows from investing activities	26	14,648
4,245	Net cash flows from financing activities	27	(5,067)
(4,107)	**Net Increase or Decrease in Cash and Cash Equivalents**		**27,913**
12,714	Cash and cash equivalents at the beginning of the reporting period		8,607
8,607	**Cash and cash equivalents at the end of the reporting period**		**36,520**

Remuneration Report

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

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

- Remuneration paid to senior employees and senior councillors of the Council for 2013/14;
- The number of employees whose remuneration was £50,000 or more, disclosed in pay bands of £5,000;
- The number and total cost of exit packages, disclosed in pay bands of £20,000;
- The Council's senior employees who participate in the Local Government Pension Scheme, administered by the Lothian Pension Fund, and the benefits provided under the scheme.

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

Employees Remuneration Policy
The salary of senior employees is set by reference to national arrangements. The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. For 2013/14 the salaries of the Directors were 87% of the Chief Executive's salary.

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

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

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

The salary that is to be paid to the Leader of the Council is set out in the regulations and for 2013/14 this was £27,329. The regulations permit the Council to remunerate one Civic head, the Provost. The regulations set out the maximum salary that may be paid to the Provost and Council policy is to pay this salary which for 2013/14 was £20,497.

The regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £146,112. The Council is also able to exercise local flexibility in the determination of the precise number of senior councillors and salary within these maximum limits. The Council policy is to divide this sum equally and pay each of the 6 senior councillors a salary of £20,452.

Remuneration Report

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

Pension Entitlement

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

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

The tiers and employees contributions rates for 2013/14 remain at the 2012/13 rates, and are as follows:

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

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

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

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

Remuneration Report

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

Number of Employees 2012/13	Remuneration Band	Number of Employees 2013/14
42	£50,000 - £54,999	52
10	£55,000 - £59,999	19
8	£60,000 - £64,999	11
9	£65,000 - £69,999	3
4	£70,000 - £74,999	8
1	£75,000 - £79,999	0
1	£80,000 - £84,999	1
0	£85,000 - £89,999	1
1	£90,000 - £94,999	0
1	£95,000 - £99,999	2
0	£100,000 - £104,999	0
1	£105,000 - £109,999	0
0	£110,000 - £114,999	1
78	**TOTAL**	**98**

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

Number of Employees 2012/13	Total Cost £000 2012/13	Package Band	Number of Employees 2013/14	Total Cost £000 2013/14
51	574	£0 - £19,999	39	389
16	438	£20,000 - £39,999	18	514
3	150	£40,000 - £59,999	2	86
2	139	£60,000 - £79,999	0	0
2	239	£80,000 +	0	0
74	**1,540**	**TOTAL**	**59**	**989**

Remuneration Report

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

31 March 2013 Total Remuneration	Name and Post Title	31 March 2014 Salary, Fees & Allowances	Non Cash Benefits	Compensation for loss of employment	Total Remuneration
£109,027	K Lawrie, Chief Executive	£110,116	-	-	£110,116
£1,772	K Lawrie, Returning Officer	-	-	-	-
£57,344	C Anderson , Executive Officer Transformation (1)	£56,562	-	-	£56,562
£95,299	J Blair, Director Resources	£91,932	£4,276	-	£96,208
£94,991	E McHugh, Joint Director Health & Social Care	£95,940	-	-	£95,940
-	M Smith, Director Education, Communities and Economy (2)	£63,960	-	-	£63,960
£47,930	D Ledingham, Director Education and Children Services (3)	£20,656	-	-	£20,656
£72,031	G Fairley, Head of Finance & ISS	£71,006	£3,311	-	£74,317
£74,354	H Kelly, Head of Customer Services	£71,006	£3,516	-	£74,522
£552,748	**Total**	**£581,178**	**£11,103**	**-**	**£592,281**

Pension Entitlement of Senior Employees

For year to 31 March 2013	In-year employers pension contributions Name and Post Title	For year to 31 March 2014
£21,835	K Lawrie, Chief Executive	£22,052
£370	K Lawrie, Returning Officer	-
£19,204	J Blair, Director Resources	£19,213
£19,204	E McHugh, Joint Director Health & Social Care	£19,213
-	M Smith, Director Education, Communities and Economy	£17,609
£14,362	G Fairley, Head of Finance & ISS	£14,840
£14,805	H Kelly, Head of Customer Services	£14,840
£89,780	**Total**	**£107,767**

1 Part time post working 21.6 hours per week. Full time equivalent salary £91,932.
2 Start date 1 August 2013. Full time equivalent salary £91,932
3 Service level agreement in place between Midlothian Council and East Lothian Council where Don Ledingham will provide the services of Director of Education and Children Services for the period 1 March 2012 to 31 July 2013, with Midlothian Council Paying 50% of his salary. Details on Don Ledingham's pension entitlement and accrued pension benefits can be seen in East Lothian Councils statement of accounts.

Remuneration Report

Accrued Pension Benefits

Name and Post Title	Pension as at 31 March 2014 £000	Lump Sum as at 31 March 2014 £000	Difference from 31 March 2013 Pension £000	Lump Sum £000
K Lawrie, Chief Executive	28	57	2	-
J Blair, Director Corporate Resources	37	88	2	1
E McHugh, Joint Director Health & Social Care	36	86	10	20
M Smith, Director Education, Communities and Economy	20	38	-	-
G Fairley, Head of Finance & ISS	29	68	2	2
H Kelly, Head of Customer Services	17	34	1	1
Total	**167**	**371**	**17**	**24**

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

Remuneration of Senior Councillors

The following table provides details of the remuneration paid to senior councillors of Midlothian Council.

31 March 2013 Total Remuneration	Name	31 March 2014 Salary	Expenses	Total Remuneration
£20,141	O Thompson, Leader (1)	£22,974	£473	£23,447
£24,563	B Constable, Depute Leader (1)	£24,807	£273	£25,080
£19,236	J Wallace, Provost	£20,497	£2,057	£22,554
-	A Coventry, Depute Provost (2)	£17,001	£319	£17,320
£18,017	J Bryant, Senior Councillor	£20,452	£260	£20,712
£15,120	D Rosie, Senior Councillor	£19,958	£495	£20,453
£18,800	C Johnstone, Senior Councillor	£20,452	£500	£20,952
£20,467	L Beattie, Senior Councillor (3)	£19,267	£217	£19,484
£21,391	D Milligan, Opposition Leader	£20,452	£529	£20,981
£157,735	**Total**	**£185,860**	**£5,123**	**£190,983**

The above list shows the current position of councillors. During the year the following changes occurred;

1. O Thompson took up the post of Leader from 19 November 2013 having previously held the post of Depute Leader, and B Constable took up the post of Depute Leader on the same day having previously held the post of Leader.
2. A Coventry took up the post of Depute Provost from 4 February 2014.
3. L Beattie acted as Senior Councillor from 1st April 2013 to 31 December 2013.

Remuneration Report

The Council paid £0.333 million (2012/13 £0.322 million) salaries to Councillors and expenses of £0.012 million (2012/13 £0.009 million). The annual return of Councillor's salaries and expenses is available on the Council Website.

Pension Entitlement of Senior Councillors

	In-year employers pension contributions	
For year to 31 March 2013	**Name**	**For year to 31 March 2014**
£4,947	B Constable, Leader	£5,184
£3,703	J Wallace, Provost	£4,283
£4,423	L Beattie, Senior Councillor	£4,026
£2,994	D Rosie, Depute Provost	£4,171
£3,696	C Johnstone, Senior Councillor	£4,274
£2,994	A Coventry, Depute Provost	£3,553
£22,757	**Total**	**£25,491**

Accrued Pension Benefits as at 31 March 2014

Name and Post Title	**Pension as at 31 March 2014**	**Lump Sum as at 31 March 2014**	**Difference from 31 March 2013 Pension**	**Lump Sum**
	£000	**£000**	**£000**	**£000**
B Constable, Leader	2	1	0	0
J Wallace, Provost	0	0	0	0
L Beattie, Senior Councillor	2	1	0	-1
D Rosie, Depute Provost	0	0	0	0
C Johnstone, Senior Councillor	0	0	0	0
A Coventry, Depute Provost	0	0	0	0
Total	**4**	**2**	**0**	**-1**

Signed:

Owen Thompson, Leader of the Council

Kenneth Lawrie, Chief Executive

30 September 2014

Notes to the Financial Statements

1. Statement of Accounting Policies

1.1 Introduction

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

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

1.2 Summary of Significant Accounting Policies

1.2.1 Accruals of Income and Expenditure

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

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

1.2.2 Cash and Cash Equivalents

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

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

Notes to the Financial Statements

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

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

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

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

1.2.5 Charges to Revenue for Non-Current Assets
Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

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

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

1.2.6 Employee Benefits

Benefits Payable during Employment

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

Notes to the Financial Statements

Termination Benefits

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

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

Post Employment Benefits

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

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

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

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

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

Notes to the Financial Statements

The Local Government Pension Scheme

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

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

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

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

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

Notes to the Financial Statements

1.2.7 Events After the Balance Sheet Date

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

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

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

1.2.8 Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

Notes to the Financial Statements

Loans and Receivables

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

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

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

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

Available for Sale Assets

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

Assets are maintained in the Balance Sheet at fair value. Values are based on the share of net assets basis as a proxy for quoted market prices.

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

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

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

Notes to the Financial Statements

1.2.9 Foreign Currency Translation

Where the council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March 2014. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the CIES.

1.2.10 Government Grants and Contributions

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

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

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

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

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

1.2.11 Intangible Assets

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

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

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

Notes to the Financial Statements

1.2.12 Interests in Companies and Other Entities

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

1.2.13 Inventories and Long Term Contracts

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

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

1.2.14 Investment Properties

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

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

As at 31st March 2014 the Council has no properties that are classed as Investment Properties.

1.2.15 Leases

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

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

The Council as Lessee

Finance Leases

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

Notes to the Financial Statements

Lease payments are apportioned between:

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

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

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

Operating Leases

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

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

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

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

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

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

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

Recognition

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

Notes to the Financial Statements

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. As part of the Council's five year rolling plan for revaluation, a move has been made to revalue all items in a specific category in the same year, if one of the assets in the category has been re-valued. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

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

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

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

Impairment

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

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

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

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

Depreciation

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

Deprecation is calculated on the following bases:

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

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

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

Notes to the Financial Statements

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

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

Disposals and Non-Current Assets Held for Sale

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

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

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

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

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

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

<u>1.2.18 Private Finance Initiative and Similar Contracts</u>

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

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

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

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

- fair value of the services received during the year – debited to the relevant service in the CIES;
- finance cost – an interest charge of 10.22% on the outstanding Balance Sheet liability for Dalkeith Schools PPP and 7.29% for Midlothian Primary Schools, debited to the Financing and Investment Income and Expenditure line in the CIES;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the CIES;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle component replacement costs – proportion of the amounts payable is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

<u>1.2.19 Provisions and Contingent Liabilities</u>

Provisions

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

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

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

Contingent Liabilities

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

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

Notes to the Financial Statements

1.2.20 Reserves

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

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

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

1.2.21 VAT

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

2. Accounting Standards that have been issued but not yet adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of the following new or amended standards within the 2014/15 Code:

• IAS 32 Financial Instruments: Presentation (as amended in December 2011)
• Annual Improvements to IFRS 2009-2011 Cycle

The Code requires implementation from 1 April 2014 and there is therefore no impact on the 2013/14 financial statements.
IAS 32 outlines disclosure requirements relating to offsetting financial assets and liabilities. IFRS improvements are generally minor, principally providing clarification.

3. Critical Judgements in Applying Accounting Policies

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

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

4. Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

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

Notes to the Financial Statements

The items in the Authorities Balance Sheet as at 31 March 2014 for which there is significant risk of material adjustment in the forthcoming year are as follows:

4.1 Property, Plant and Equipment

Uncertainties

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

Effect if Actual Results Differ from Assumptions

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

4.2 Pension Liabilities

Uncertainties

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

Effect if Actual Results Differ from Assumptions

During 2013/14 the actuary advised that the Balance Sheet position has worsened since last year. This was principally due to falling bond yields during 2013/14.

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

Sensitivities at 31 March 2014	Approximate % increase to Employer Obligation	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	10%	39,213
1 year increase in member life expectancy	3%	12,127
0.5% increase in the Salary Increase Rate	3%	11,262
0.5% increase in the Pension Increase Rate	7%	27,305

Notes to the Financial Statements

5. Adjustments between Accounting Basis and Funding Basis Under Regulations

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

Usable Reserves 2012/13	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Usable Capital Receipts Reserve £000	Repairs And Renewals Fund £000	**Total Useable Reserves £000**
Reversal of items debited or credited to the CIES						
Charges for Depreciation and impairment of non-current assets	(39,071)	(11,857)	0	0	0	**(50,928)**
Net gain or loss on sale of non-current assets	216	0	0	0	0	**216**
Amortisation of Intangible Assets	(188)	0	0	0	0	**(188)**
Insertion of items not debited or credited to the CIES						
Loan / Lease repayments	3,600	2,086	2,000	0	0	**7,686**
Net Revenue Expenditure Funded from Capital	0	0	0	0	0	**0**
Equal Pay Capitalisation	0	0	0	0	0	**(0)**
Adjustments primarily involving the Capital Grant Unapplied Account						
Application of Grants to Capital Financing transferred to the CAA	22,416	5,680	0	0	0	**28,096**
Adjustments primarily involving the Capital Fund						
Disposal of Fixed Assets / Capital Sales	0	0	0	(96)	0	**(96)**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	(96)	96	0	**0**
Capital Receipts used to Finance Capital Expenditure	0	0	0	0	0	**0**
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	(637)	0	0	0	0	**(637)**
Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the CIES	(12,738)	0	0	0	0	**(12,738)**
Employers Pension contributions and direct payments to pensioners payable in the year	11,239	0	0	0	0	**11,239**
Adjustments primarily involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	388	0	0	0	0	**388**
Total Adjustments	**(14,775)**	**(4,091)**	**1,904**	**0**	**0**	**(16,962)**

Notes to the Financial Statements

Unusable Reserves 2012/13	Capital Adjustment Account £000	Revaluation Reserve £000	Accumulated Absences Account £000	Financial Instruments Adjustment Account £000	Available For Sale Financial Instruments Account £000	Pensions Reserve £000	**Total Unusable Reserves £000**
Reversal of items debited or credited to the CIES							
Charges for Depreciation and impairment of non-current assets	50,928	0	0	0	0	0	**50,928**
Net gain or loss on sale of non-current assets	(216)	0	0	0	0	0	**(216)**
Amortisation of Intangible Assets	188	0	0	0	0	0	**188**
Insertion of items not debited or credited to the CIES							
Loan / Lease repayments	(7,686)	0	0	0	0	0	**(7,686)**
Net revenue Expenditure Funded from Capital	(0)	0	0	0	0	0	**(0)**
Equal Pay Capitalisation	0	0	0	0	0	0	**0**
Adjustments primarily involving the Capital Grant Unapplied Account							
Application of Grants to Capital Financing transferred to the CAA	(28,096)	0	0	0	0	0	**(28,096)**
Adjustments primarily involving the Capital Fund							
Disposal of Fixed Assets / Capital Sales	96	0	0	0	0	0	**96**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	0	0	0	0	**0**
Capital Receipts used to Finance Capital Expenditure	0	0	0	0	0	0	**0**
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	0	0	0	637	0	0	**637**
Adjustments primarily involving the pensions reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	0	0	0	12,738	**12,738**
Employers Pension contributions and direct payments to pensioners payable in the year	0	0	0	0	0	(11,239)	**(11,239)**
Adjustments primarily involving the Employee Statutory Adjustment Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(388)	0	0	0	**(388)**
Total Adjustments	**15,214**	**0**	**(388)**	**637**	**0**	**1,499**	**16,962**

Notes to the Financial Statements

Usable Reserves 2013/14	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Usable Capital Receipts Reserve £000	Repairs And Renewals Fund £000	**Total Useable Reserves £000**
Reversal of items debited or credited to the CIES						
Charges for Depreciation and impairment of non-current assets	(25,980)	(86,364)	0	0	0	**(112,344)**
Net gain or loss on sale of non-current assets	(4,069)	399	0	0	0	**(3,670)**
Amortisation of Intangible Assets	(190)	0	0	0	0	**(190)**
Insertion of items not debited or credited to the CIES						
Loan / Lease repayments	2,845	2,389	2,500	0	0	**7,734**
Net Revenue Expenditure Funded from Capital	0	0	0	0	0	**0**
Equal Pay Capitalisation	0	0	0	0	0	**0**
Adjustments primarily involving the Capital Grant Unapplied Account						
Application of Grants to Capital Financing transferred to the CAA	8,519	1,125	0	0	0	**9,644**
Adjustments primarily involving the Capital Fund						
Disposal of Fixed Assets / Capital Sales	0	0	0	(7,196)	0	**(7,196)**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	(5,627)	5,627	0	**0**
Capital Receipts used to Finance Capital Expenditure	0	0	0	1,568	0	**1,568**
Adjustments involving the Financial Instruments Adjustment Account						
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	7	0	0	0	0	**7**
Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the CIES	(13,183)	(1,996)	0	0	0	**(15,179)**
Employers Pension contributions and direct payments to pensioners payable in the year	9,526	1,545	0	0	0	**11,071**
Adjustments primarily involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(347)	0	0	0	0	**(347)**
Total Adjustments	**(22,868)**	**(82,906)**	**(3,127)**	**0**	**0**	**(108,901)**

Notes to the Financial Statements

Unusable Reserves 2013/14	Capital Adjustment Account £000	Revaluation Reserve £000	Accumulated Absences Account £000	Financial Instruments Adjustment Account £000	Available For Sale Financial Instruments Account £000	Pensions Reserve £000	**Total Unusable Reserves £000**
Reversal of items debited or credited to the CIES							
Charges for Depreciation and impairment of non-current assets	112,344	0	0	0	0	0	**112,344**
Net gain or loss on sale of non-current assets	3,670	0	0	0	0	0	**3,670**
Amortisation of Intangible Assets	190	0	0	0	0	0	**190**
Insertion of items not debited or credited to the CIES							
Loan / Lease repayments	(7,734)	0	0	0	0	0	**(7,734)**
Net revenue Expenditure Funded from Capital	0	0	0	0	0	0	**0**
Equal Pay Capitalisation	0	0	0	0	0	0	**0**
Adjustments primarily involving the Capital Grant Unapplied Account							
Application of Grants to Capital Financing transferred to the CAA	(9,644)	0	0	0	0	0	**(9,644)**
Adjustments primarily involving the Capital Fund							
Disposal of Fixed Assets / Capital Sales	7,196	0	0	0	0	0	**7,196**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	0	0	0	0	**0**
Capital Receipts used to Finance Capital Expenditure	(1,568)	0	0	0	0	0	**(1,568)**
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	0	0	0	(7)	0	0	**(7)**
Adjustments primarily involving the pensions reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	0	0	0	15,179	**15,179**
Employers Pension contributions and direct payments to pensioners payable in the year	0	0	0	0	0	(11,071)	**(11,071)**
Adjustments primarily involving the Employee Statutory Adjustment Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	347	0	0	0	**347**
Total Adjustments	**104,453**	**0**	**347**	**(7)**	**0**	**4,108**	**108,901**

Notes to the Financial Statements

6. Non-Distributable Costs

2012/13 £000		2013/14 £000
1,303	Pension Costs	3,934
1,303	**Total Non-distributable Costs**	**3,934**

7. Other Operating Income and Expenditure

2012/13 £000		2013/14 £000
(216)	(Surplus)/Deficit on sale of non current assets	3,670
(216)	**Total Other Operating Income and Expenditure**	**3,670**

8. Financing and Investment Income and Expenditure

2012/13 £000		2013/14 £000
13,847	Interest payable and similar charges	14,029
2,616	Pension interest cost and expected returns on pension assets	2,990
(1,629)	Interest received and similar income	(1,113)
0	Investment Losses	0
(22)	(Surplus)/deficit on trading operations	0
14,812	**Total**	**15,906**

9. Taxation and Specific Grant Income

2012/13 £000		2013/14 £000
38,095	Council Tax Income	33,363
24,714	Non Domestic Rates Income	26,596
127,963	Non-Specific Government Grants	123,195
190,772	**Total Taxation and Non-Specific Grant Income**	**183,154**

Notes to the Financial Statements

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

Comparatives	Houses £000	Land £000	Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Under Construction £000	Surplus Assets £000	Total £000
Gross Book value as at 31 March 2012	**376,573**	**46,027**	**287,575**	**19,416**	**45,519**	**3,015**	**40,058**	**9,721**	**827,904**
Adjustment to opening balance	(21)	(11)	11	1	0	11	11	(34)	(32)
Restated Gross Book value as at 31 March 2012	**376,552**	**46,016**	**287,586**	**19,417**	**45,519**	**3,026**	**40,069**	**9,687**	**827,872**
Additions	9,236	44	2,017	2,781	999	0	32,053	15	47,145
Disposals	(881)	(30)	(88)	(509)	0	0	0	0	(1,508)
Revaluation increase/ (decrease) to Revaluation Reserve	0	(4,157)	(9,368)	0	0	4,044	0	(44)	(9,525)
Revaluation increase/ (decrease) to CIES	0	(4,275)	(16,379)	0	0	(2)	0	0	(20,656)
Reclassifications	5,086	(165)	1,259	0	0	0	(6,259)	800	721
Gross Book value at 31 March 2013	**389,993**	**37,433**	**265,027**	**21,689**	**46,518**	**7,068**	**65,863**	**10,458**	**844,049**
Depreciation as at 31 March 2012	**(22,283)**	**(48)**	**(54,335)**	**(13,243)**	**(18,933)**	**(98)**	**220**	**(34)**	**(108,754)**
Adjustment to opening balance	78	48	92	0	0	0	(220)	34	32
Restated Depreciation as at 31 March 2012	**(22,205)**	**0**	**(54,243)**	**(13,243)**	**(18,933)**	**(98)**	**0**	**0**	**(108,722)**
Depreciation for the year	(11,734)	0	(13,852)	(1,649)	(2,987)	(51)	0	0	(30,273)
Depreciation/ impairment written out on Revaluation Reserve	0	0	8,444	0	0	0	0	0	8,444
Depreciation/ impairment written out on Revaluations taken to CIES	0	0	3,414	0	0	0	0	0	3,414
Write back depreciation on disposals	129	0	41	489	0	0	0	0	659
Reclassifications	14	0	(14)	0	0	0	0	0	0
Depreciation as at 31 March 2013	**(33,796)**	**0**	**(56,210)**	**(14,403)**	**(21,920)**	**(149)**	**0**	**0**	**(126,478)**
Net book value as at 31 March 2012	**354,290**	**45,979**	**233,240**	**6,173**	**26,586**	**2,917**	**40,278**	**9,687**	**719,150**
Net book value as at 31 March 2013	**356,197**	**37,433**	**208,817**	**7,286**	**24,598**	**6,919**	**65,863**	**10,458**	**717,571**

Notes to the Financial Statements

	Houses £000	Land £000	Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Under Construction £000	Surplus Assets £000	Total £000
Gross Book value as at 31 March 2013	**389,993**	**37,433**	**265,027**	**21,689**	**46,518**	**7,068**	**65,863**	**10,458**	**844,049**
Adjustment to opening balance	(336)	3,413	(3,077)	0	0	0	0	0	0
Restated Gross Book value as at 31 March 2013	**389,657**	**40,846**	**261,950**	**21,689**	**46,518**	**7,068**	**65,863**	**10,458**	**844,049**
Additions	14,470	219	9,338	3,562	4,071	0	1,720	8	33,388
Disposals	(1,428)	(3,086)	(1,962)	(1,180)	0	0	0	0	(7,656)
Revaluation increase/ (decrease) to Revaluation Reserve	0	(5,302)	(6,996)	0	0	813	(15)	(580)	(12,080)
Revaluation increase/ (decrease) to CIES	(80,052)	(8,797)	124	(257)	0	2	0	(96)	(89,076)
Reclassifications	33,079	(5,267)	31,203	0	0	0	(64,697)	0	(5,682)
Gross Book value at 31 March 2014	**355,726**	**18,613**	**293,657**	**23,814**	**50,589**	**7,883**	**2,871**	**9,790**	**762,943**
Depreciation as at 31 March 2013	**(33,796)**	**0**	**(56,210)**	**(14,403)**	**(21,920)**	**(149)**	**0**	**0**	**(126,478)**
Adjustment to opening balance	(29)	0	17	0	0	0	0	0	(12)
Restated Depreciation as at 31 March 2013	**(33,825)**	**0**	**(56,193)**	**(14,403)**	**(21,920)**	**(149)**	**0**	**0**	**(126,490)**
Depreciation for the year	(12,587)	0	(11,807)	(2,053)	(3,040)	(51)	0	0	(29,538)
Depreciation/ impairment written out on Revaluation Reserve	0	0	31,442	0	0	0	0	0	31,442
Depreciation/ impairment written out on Revaluations taken to CIES	5,859	0	2,580	157	0	0	0	0	8,596
Write back depreciation on disposals	281	0	210	1,178	0	0	0	0	1,669
Reclassifications	0	0	90	0	0	0	0	0	90
Depreciation as at 31 March 2014	**(40,272)**	**0**	**(33,678)**	**(15,121)**	**(24,960)**	**(200)**	**0**	**0**	**(114,231)**
Net book value as at 31 March 2013	**356,197**	**37,433**	**208,817**	**7,286**	**24,598**	**6,919**	**65,863**	**10,458**	**717,571**
Net book value as at 31 March 2014	**315,454**	**18,613**	**259,979**	**8,693**	**25,629**	**7,683**	**2,871**	**9,790**	**648,712**

Revaluations

For Land and Buildings there is a rolling programme of revaluation with assets revalued on at least a five-year cycle with more regular valuations taking place where appropriate. These valuations, except for land at Shawfair, were 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.

Notes to the Financial Statements

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.

11. Intangible Assets

Software licences are held for a number of systems operated by the Council which cost £0.977 million (2012/13 £0.917 million). This cost is being written off over 3 or 5 years depending on the life of the licence. A total of £0.757 million has been written off (2012/13 £0.567 million).

2012/13 £000		2013/14 £000
814	**Gross carrying amount at start of year**	**917**
(378)	Accumulated amortisation	(567)
436	**Net carrying amount at the start of year**	**350**
103	Additions – purchased	60
(189)	Amortisation	(190)
350	**Net Book Value at Year End**	**220**

12. Movement in Assets Held for Sale

2012/13 £000		2013/14 £000
5,700	**Balance Outstanding as at 1 April**	**5,100**
0	Additions	
79	Transfers from Non Current Assets during the year	5,682
121	Revaluations and Restatements	0
0	Impairments	(132)
(800)	Assets declassified as held for sale	0
0	Assets sold at cost	0
0	Asset Disposal - Other	(4,880)
5,100	**Balance Outstanding as at 31 *M*arch**	**5,770**

13. Heritage Assets

2012/13 £000		2013/14 £000
30	**Restated cost or valuation at start of year**	**30**
0	Additions	0
0	Revaluation gains (losses) taken to surplus or defecit on the provision of service	0
0	Revaluation gains (losses) other	0
0	Impairment losses	0
0	Assets sold cost	0
30	**Cost or valuation at year-end**	**30**

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

Notes to the Financial Statements

14. Financial Instruments

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

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

Financial Instrument Balances

Restated Long Term 31.3.13 £000	**Current 31.3.13 £000**		**Long Term 31.3.14 £000**	**Current 31.3.14 £000**
		Financial Liabilities		
197,993	34,660	External Borrowings at amortised cost	187,969	40,781
58,430	967	PPP Liability(see Note 38)	57,300	1,040
0	10,739	Creditors	0	11,790
256,423	**46,366**	**Total Financial Liabilities**	**245,269**	**53,611**
		Financial Assets		
0	29,247	Loans and Receivables	0	0
962	0	Available-for-sale Financial Assets	4,457	0
0	8,607	Cash and Cash Equivalents (see Note 18)	0	36,520
0	7,759	Debtors (see Note 15)	2,100	6,179
962	**45,613**	**Total Financial Assets**	**6,557**	**42,699**

Lender Option Borrower Options (LOBO's) of £20m have been included in long term borrowing, this reflecting the contractual period to maturity for these instruments, given the unlikelihood of call within the next 12 months.

Short Term borrowing as shown in the Balance Sheet of £40.781 million comprises accrued interest of £2.128 million, the LOBO transition/amortisation adjustment of £0.629 million and principal to be repaid within 12 months of £38.024 million (£20.000 million PWLB Maturities; £18.000 million Temporary Loans; £0.024m PWLB Annuities).

Gains and Losses on Financial Instruments

There were gains on Available for Sale Financial Assets of £3.495 million, which were recognised in the Comprehensive Income and Expenditure Statement for the year.

Total Interest Income/Expense

Total interest income and total interest expense (calculated using the effective interest method) for financial assets and liabilities that are not at fair value through profit or loss for 2013/14 was £7.772 million [equating to £8.234m interest paid on external borrowings less £0.462m interest received on loans and receivables and cash and cash equivalents].

Fee Income and Expense

Total fee expense for financial assets and liabilities that are not at fair value through profit or loss for 2013/14 was £0.076m.

Notes to the Financial Statements

<u>Fair Value of Assets and Liabilities Carried at Amortised Cost</u>

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

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

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

The rates quoted in this valuation were obtained by Sector, the Council's treasury management consultants, from the market on 31 March 2014.

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 126/14 issued by PWLB on 31 March 2014;
- 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 financial instruments in the portfolio;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Fair values of financial liabilities (where available) are calculated as:

31 March 2013			**31 March 2014**				
Carrying Amount	**Fair Value**	**Liability**	**Principal Outstanding**	**Add LOBO Accounting Adjustment**	**Add Accrued Interest**	**Carrying Amount**	**Fair Value**
£000	**£000**		**£000**	**£000**	**£000**	**£000**	**£000**
179,678	192,536	PWLB	187,993	0	1,844	189,837	192,238
20,910	22,436	LOBO	20,000	629	274	20,903	20,652
3	3	European Investment Bank	0	0	0	0	0
32,062	32,060	Short Term Borrowing	18,000	0	10	18,010	18,011
232,653	**247,035**	**Total External Borrowing**	**225,993**	**629**	**2,118**	**228,750**	**230,901**

Long Term borrowing as shown in the Balance Sheet of £187.969 million fully comprises principal to be repaid later than 12 months (PWLB Maturity Loans of £167.175 million, PWLB Annuity Loans of £0.794 million and LOBO Loans of £20.000 million).

Notes to the Financial Statements

Fair values of financial assets (where available) are calculated as:

31 March 2013			31 March 2014			
Carrying Amount	Fair Value	Financial Assets	Principal Advanced	Add Accrued Interest	Carrying Amount	Fair Value
£000	£000		£000	£000	£000	£000
8,607	8,607	Cash and Cash Equivalents	36,516	4	36,520	36,520
29,247	29,436	Deposits with Banks and Building Societies	0	0	0	0
37,854	**38,043**	**Total Financial Assets**	**36,516**	**4**	**36,520**	**36,520**

Nature and extent of risks arising from Financial Instruments

The Council's management of treasury risks actively works to minimize the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services.

The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of 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 to £15 million per institution, other than for UK government backed institutions where this maximum is extended to £30 million.

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

	Amounts at 31 March 2014	Historical experience of default	Historical experience adjusted for market conditions as at 31 March 2014	Estimated maximum exposure to default and non collectable amounts
	£000	%	%	£000
Deposits with banks and other financial institutions	39,131	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.

An age analysis of cash and cash equivalents is shown in the table below:-

Age Analysis

31 March 2013		31 March 2014
£000		£000
8,607	Less than 3 months	36,520
12,374	3 to 6 months	0
16,873	6 months to 1 year	0
0	More than 1 year	0
37,854	**Total**	**36,520**

Notes to the Financial Statements

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.

Furthermore, 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.

An age analysis of external borrowings is shown in the table below:-

Age Analysis

31 March 2013 £000s		**31 March 2014 £000's**
32,027	Less than 1 year	38,024
20,024	1 to 2 years	5,026
17,086	2 to 5 years	22,094
28,300	5 to 10 years	18,318
42,949	10 to 20 years	42,897
4,100	20 to 30 years	14,100
38,000	30 to 40 years	50,700
42,534	40 to 50 years	29,834
5,000	Greater than 50 years	5,000
230,020	**Total**	**225,993**

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 council is summarised below:

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

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

Notes to the Financial Statements

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 2014, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

<u>Interest Rate Risk</u>

	£000
Increase in interest payable on variable rate borrowings	160
Increase in interest receivable on variable rate instruments	(370)
Increase in government grant receivable for financing costs	0
Impact on CIES	**(210)**
Share of overall impact credited to the HRA	**(121)**

The impact of a 1% fall in interest rates has not been calculated due to base rate currently sitting at 0.5% and £13.073 million of the council's short-term investments receiving interest of less than 1%.

<u>Price Risk</u>

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.

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

Notes to the Financial Statements

15. 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 valuation basis for the Council's shareholding (350,000 £1 ordinary shares) was changed in 2013/14 and is now calculated as net share of assets rather than based on a historic offer to purchase the shareholding. This increases the value from £0.962 million in the 2012/13 accounts to £4.457 million in 2013/14.

The most recent results of the company are as follows:

Year to 31 December 2012 £000		**Year to 31 December 2013 £000**
122,675	Turnover	132,263
9,416	Profit before taxation	11,653
(1,483)	Taxation	(3,072)
7,933	Profit after taxation	8,581
3,296	Ordinary dividend	3,296
(15,266)	Transfer to / (from) reserves	27,400
54,080	**Net assets at end of year**	**81,480**

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

16. Inventories

In carrying out its work the Council holds reserves of stock. The value of inventories at the 31st March 2014 was £1.182 million (2012/13 £0.811 million).

17. Debtors

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

Short Term Debtors

2012/13 £000	**2012/13 £000**		**2013/14 £000**	**2013/14 £000**
26,093		Council Tax and Community Charge	27,129	
(23,885)		Less: bad debt provision	(24,817)	
	2,208			2,312
	3,362	Central Government Bodies		2,224
	205	Other Local Authorities		9
	1,106	Public Corporations and Trading Funds		(8)
	948	NHS Bodies		0
19,755		Grants, External Debtor accounts and other Income due	18,210	
(6,034)		Less: bad debt provision	(5,371)	
	13,721			12,839
	21,550	**Net Debtors**		**17,376**

Notes to the Financial Statements

Long Term Debtors

2012/13		**2013/14**
£000		**£000**
2,275	Prepayment to PPP Contractor	2,553
0	Mauricewood Capital Receipt	2,100
4,703	**Total Long Term Debtors**	**4,653**

18. Cash and Cash Equivalents

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

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

2012/13		**2013/14**
£000		**£000**
57	Cash and Bank Balances	59
9,947	Short Term Deposits Considered to be Cash Equivalents	39,131
(1,397)	Bank Overdraft	(2,670)
8,607	**Total Cash and Cash Equivalents**	**36,520**

19. Creditors

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

2012/13		**2013/14**
£000		**£000**
7,029	Payroll Costs Due	5,153
4,601	Accumulated Absences	4,948
398	Central Government Bodies	2,544
396	Other Local Authorities	87
12	Public Corporations and Trading Funds	27
(218)	NDR/Council Tax	1,270
13,956	Other Entities and Individuals	13,805
26,174	**Total Creditors**	**27,834**

20. Equal Pay Claims and Provision

Included in the Net Cost of Services is a reduction in expenditure of £0.447 million (2012/13 increase of £0.422 million) in respect of providing for settlement of Equal Pay claims under the Equal Pay Act 1970. At 31 March 2014 £9.919 million of claims have been settled and an estimate of £2.078 million for outstanding claims has been provided with £1.955 million in short term creditors and £0.123 million in other provisions.

Notes to the Financial Statements

21. Other Provisions

Insurance

A provision for potential uninsured losses arising from claims is also made and this amounted to £0.999 million at 31 March 2014 (2012/13 £0.782 million) and is shown in other provisions.

Financial Guarantees

The Council has provided a financial guarantee to Gorebridge Community Development Trust whereby up to £0.125 million of any negative cashflow that may occur during the construction phase of their project due to timings of external funding received and contractual commitments with contractors will be covered by the Council and will operate as a fully re-payable loan. To assess the fair value of this loan, which determines the amount chargeable to the CIES, a detailed risk assessment has been undertaken to measure potential risks and the probability of them occurring given risk mitigation measures that are in place. The fair value was determined at £0.089 million and this is provided for in the CIES and the Balance Sheet.

22. Other Long Term Liabilities

2012/13 £000		2013/14 £000
65,872	Net Pension Liabilities	80,421
58,340	PPP Liabilities	57,301
124,212	**Total Long Term Liabilities**	**137,722**

23. Usable Reserves

Movement in the Council's usable reserves are detailed in the Movement in Reserves Statement and in note 5.

31st March 2013 £000		31st March 2014 £000
(14,083)	General Fund Reserve	(20,511)
(14,673)	HRA Balance	(18,374)
(7,531)	Capital Fund	(10,658)
(2,275)	Repairs and Renewals Fund	(2,553)
(38,562)	**Total Usable Reserves**	**(52,096)**

24. Unusable Reserves

Restated 31st March 2013 £000			31st March 2014 £000
(348,874)	24.1	Capital Adjustment Account	(252,514)
(77,525)	24.2	Revaluation Reserve	(91,066)
65,872	24.3	Pension Reserve	80,421
4,601	24.4	Employee Statutory Adjustment Account	4,948
612	24.5	Financial Instruments Adjustment Account	3,082
(2,608)	24.6	Available for Sale Financial Instruments Reserve	(4,107)
(353,242)		**Total Unusable Reserves**	**(259,236)**

Notes to the Financial Statements

24.1 Capital Adjustment Account

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

Note 5 provides further details of transactions posted to the Account.

2012/13 £000		**2013/14 £000**
(360,607)	**Balance at 1st April**	**(348,874)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
50,928	- Charges for Depreciation and impairment of non-current assets	112,344
(11)	- Accumulated gains on assets sold or scrapped	(4,859)
188	- Amortisation of intangible assets	190
850	- Amounts of non-current assets written off on gain/loss on disposal to CIES	10,865
(3,470)	- Adjusting amount written out to Revaluation reserve	(3,232)
(312,122)	**Net written out amount of the cost of non-current assets consumed in year**	**(233,566)**
	Capital Financing for the year:	
(970)	- Use of Capital Receipts to finance new Capital expenditure	(1,570)
0	- Equal Pay Capitalisation	0
(28,096)	- Capital Grants and Contributions to the CIES	(9,644)
(7,686)	- Loan and Lease Principal repayments	(7,734)
(0)	- Capital expenditure charged against the General Fund	0
(348,874)	**Balance at 31st March**	**(252,514)**

24.2 Revaluation Reserve

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

2012/13 £000		**2012/13 £000**
(78,552)	**Balance at 1st April**	**(77,525)**
(2,454)	(Upward) / downward Revaluation of Assets	(21,632)
3,469	Downward revaluation of assets and impairment losses not charged to the Surplus / (Deficit) on the provision of services	3,232
12	Accumulated losses on assets sold	4,859
(77,525)	**Balance at 31st March**	**(91,066)**

Notes to the Financial Statements

24.3 Pension Reserve

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

2012/13 £000		**2013/14 £000**
55,012	**Balance at 1st April**	**65,872**
9,361	Actuarial (gains) or losses on pension assets and liabilities	10,441
12,738	Reversals of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	15,179
(11,239)	Employer's pension contributions	(11,071)
65,872	**Balance at 31st March**	**80,421**

24.4 Employee Statutory Adjustment Account

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

2012/13 £000	**2012/13 £000**		**2013/14 £000**	**2013/14 £000**
	4,989	**Balance at 1st April**		**4,601**
(4,989)		Settlement or cancellation of accrual made at end of preceding year	(4,601)	
4,601		Amounts accrued at the end of the current year	4,948	
	(388)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		347
	4,601	**Balance at 31st March**		**4,948**

Notes to the Financial Statements

24.5 Financial Instruments Adjustment Account

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

2012/13 £000		2013/14 £000
3,509	**Balance at 1st April**	**3,296**
637	Proportion of equivalent interest rate calculation on lender option / borrower option loans	(7)
(850)	Change in share of equivalent interest rate calculation	(207)
3,296	**Balance at 31st March**	**3,082**

24.6 Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards and the gains are lost or disposed of and the gains are realised.

2012/13 £000		2013/14 £000
(612)	**Balance at 1st April**	**(612)**
0	Upward revaluation of investments	(3,495)
0	Downward revaluation of investments not charged to Surplus/Deficit on the Provision of Service	0
0	Accumulated gains on assets sold and maturing assets written out to the CIES as part of Other Investment Income	0
(612)	**Balance at 31st March**	**(4,107)**

Notes to the Financial Statements

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

Restated 2012/13 £000		2013/14 £000
(13,143)	**Net surplus or (deficit) on the provision of services**	**(95,367)**
	Adjustment to surplus or deficit on the provision of services for noncash movements	
30,273	Depreciation	29,549
20,656	Impairment & downward revaluations (& non-sale derecognitions)	82,792
188	Amortisation	190
657	Adjustment for internal interest charged	468
(44)	(Increase)/Decrease in Stock	(371)
1,440	(Increase)/Decrease in Debtors	697
(59)	(Increase)/Decrease in Interest and Dividend Debtors	347
0	Adjustment for effective interest rates	0
985	Increase/(Decrease) in Creditors	3,051
424	Increase/(Decrease) in Interest Creditors	131
(1,508)	Pension Liability	4,108
850	Carrying amount of non-current assets sold	10,866
(1,491)	Contributions to Other Reserves/Provisions	(638)
0	Carrying amount of short and long term investments sold	0
53	Other non-cash movements and transfers to investing activities	(644)
52,560		**130,539**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
0	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	
(1,065)	Proceeds from the sale of PP&E, investment property and intangible assets	(7,196)
(28,097)	Capital grants included in "Taxation & non-specific grant income”	(9,644)
7	Premiums or discounts on the repayment of financial liabilities	0
(29,155)		**(16,840)**
7,637	**Net Cash Flows from Operating Activities**	**18,332**
	Operating activities within the cash flow statement include the following cash flows relating to interest	
914	Interest Received	803
(12,765)	Interest Paid	(13,434)
182	Dividends Received	180
(11,669)		**(12,451)**

26. Net Cash Flows from Investing Activities

Restated 2012/13 £000		2013/14 £000
(46,260)	Purchase of PP&E, investment property and intangible assets	(34,839)
(28,900)	Purchase of Short Term Investments (not considered to be cash equivalents)	0
6,454	Proceeds from the sale of PP&E, investment property and intangible assets	5,219
24,900	Proceeds from Short Term Investments (not considered to be cash equivalents)	28,900
27,817	Other Receipts from Investing Activities	15,368
(15,989)	**Net Cash flows from Investing Activities**	**14,648**

Notes to the Financial Statements

27. Net Cash Flows from Financing Activities

2012/13 £000		2013/14 £000
213,343	Cash Receipts from Short and Long Term Borrowing	71,200
(967)	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(1,040)
(208,131)	Repayment of Short and Long Term Borrowing	(75,227)
4,245	**Net Cash flows from Financing Activities**	**(5,067)**

28. Amounts Reported for Resource Allocation Decisions

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

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

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

		2012/13				2013/14
		Net				Net
Expenditure	Income	Expenditure		Expenditure	Income	Expenditure
£000	£000	£000	Service Area	£000	£000	£000
18,428	165	18,263	Children and Families	14,902	103	14,799
5,980	290	5,690	Communities and Support	5,785	260	5,525
68,947	1,065	67,882	Education	71,401	959	70,442
50,892	13,429	37,463	Adult and Community Care	50,692	14,342	36,350
766	23	743	Business Transformation	632	9	623
7,614	3,755	3,859	Housing and Community Safety	8,687	3,869	4,818
19,423	2,069	17,354	Commercial Operations	17,396	2,091	15,305
39,276	34,045	5,231	Customer Services	39,396	29,255	10,141
5,370	18	5,352	Finance and Human Resources	5,594	57	5,537
3,794	1,830	1,964	Planning and Development	2,893	1,394	1,499
19,222	5,826	13,396	Properties and Facilities Management	19,308	6,494	12,814
8,895	266	8,629	Joint Boards	485	0	485
7,620	0	7,620	Loan Charges	5,265	0	5,265
239	896	(657)	Investment Income	214	939	(725)
92	0	92	Other Expenditure	(697)	41	(738)
256,558	**63,677**	**192,881**	**Total Expenditure**	**241,953**	**59,813**	**182,140**
		(38,001)	Council Tax Income			(38,708)
		(152,744)	Scottish Government Grant			(149,860)
		2,136	**General Fund Services**			**(6,428)**

Notes to the Financial Statements

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

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

2012/13 £000		2013/14 £000
2,136	Net Expenditure per Council functional analysis	(6,428)
(2,964)	HRA Outturn	(3,701)
(828)	**Total Net Expenditure**	**(10,129)**
	Net Expenditure of services not included in CIES	
(6,722)	Loans fund Principal repayments	(4,268)
(964)	Statutory Provision for the repayment of Debt	(966)
(271)	Repairs and Renewals	(278)
0	Other	0
	Amounts in the CIES not reported to Management	
51,118	Depreciation, Impairment and Amortisation	112,534
(216)	Surplus / (losses) on sale of fixed assets	3,670
636	Financing Costs	(7)
(1,126)	Pensions Interest Costs	4,108
(388)	Short Term Accumulated Absences	347
(28,096)	Government Grants and Contributions	(9,644)
13,143	**(Surplus) or Deficit on Provision of Services**	**95,367**

Notes to the Financial Statements

29. Agency Income and Expenditure

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

The main items of agency expenditure and income were:

2012/13 £000		2012/13 £000
	Expenditure	
	Payments to other Local Authorities in respect of:	
819	Social Work services for Midlothian clients	775
217	Services for Additional Support Needs pupils	216
58	Pentland Hills Regional Park	60
58	Non Domestic Rates collection services	58
14	Childcare services	14
5	Sample analysis	0
28	Taxi inspections	26
27	Mortuary Services	28
32	Visually impaired service	32
40	Fostering Placements	14
107	Other	120
	Payments made to Health Boards in respect of:	
195	Speech and Language Service	198
1,600		**1,541**
	Income	
	Receipts from other Local Authorities in respect of:	
369	Social Work services	551
45	Additional Support Needs pupils	75
48	Audiology service	10
26	Fostering Placements	37
215	Receipts from Scottish Water for tax collection	244
	Receipts from Housing Associations in respect of:	
13	Social Work services	3
716		**920**

30. Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice is £0.237 million (2012/13 £0.237 million). There were no other fees payable in respect of any other services provided by the appointed auditor.

Notes to the Financial Statements

31. Devolved School Management

The net amount of balances to be carried forward for schools under the scheme is £0.662 million (2012/13 £1.369 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

32. Grant Income Credited to Services

The Council credited the following grants to the CIES:

2012/13		**2013/14**
£000		**£000**
31,900	Housing/Rent Benefit Subsidy	26,429
5,700	Lothian Health Board/Resource Transfer	5,913
999	Criminal Justice	1,010
639	Housing Benefit Administration	572
500	Skillseekers	439
4	Edinburgh Science triangle	0
242	Private Sector Housing Grant	198
266	Police Grant	0
256	Active Schools/Sports Scotland	287
0	Lifeskills Project	80
227	Contaminated Land	186
210	Youth Music Initiative	113
17	Activity Agreement	0
705	Heritage Lottery	200
135	New Leaf	14
171	Opportunities for All	177
115	Innovation Project	190
111	Business Gateway	225
0	Forestry Commission	80
0	Welfare Rights	114
690	Other Grants and Contributions	553
42,887	**Total Grants and Contributions**	**36,780**

33. Capital Grants Received in Advance

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

2012/13		**2013/14**
£000		**£000**
7,631	**Balance at 1April**	**9,893**
2,409	New capital grants received in advance, conditions of use not met	3,152
(147)	Amounts released to CIES, conditions of use met	(892)
9,893	**Balance at 31 March**	**12,153**

Notes to the Financial Statements

34. Related Parties

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

2012/13 £000		2013/14 £000
6,672	Lothian and Borders Police Board	(71)
2,271	Lothian and Borders Fire Board	0
555	Lothian Valuation Board	556
12,706	Lothian Pension Fund	13,118

Creditors within the Balance Sheet include £1.964 million (2012/13 £1.077 million) due to Lothian Pension Fund.

35. Capital Expenditure and Capital Financing

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

Restated 2012/13 £000	Restated 2012/13 £000		2013/14 £000	2013/14 £000
	286,508	**Opening Capital Financing Requirement**		**297,002**
		Capital Expenditure		
47,248		Property, Plant and Equipment	33,388	
0		Assets Held for Sale	0	
0		Intangible Assets	60	
0		Revenue expenditure funded from capital under statute	0	
96		Capital Receipts transferred to Capital Fund	5,627	
	47,344			**39,075**
		Capital Financing		
(1,066)		Capital Receipts	(7,195)	
(26,556)		Government Grants	(7,293)	
(1,541)		Contribution from Other Bodies	(2,352)	
0		Other Receipts	0	
0		Long Term Debtors	0	
(6,722)		Loans Fund and Lease Repayments	(7,734)	
	(36,850)			**(24,574)**
	297,002	**Closing Capital Financing Requirement**		**311,503**
	10,497	**Increase in Capital Financing Requirement**		**14,501**

Notes to the Financial Statements

36. Commitments under Capital Contracts

At the end of the year, the Council was contractually committed to capital works which amounted to approximately £2.929 million (2012/13 £11.989 million).

37. Leases

Finance

The council currently holds no finance leases.

Operating

The council uses assets financed under the terms of an operating lease. The amount charged to revenue for the year was £0.702 million (2012/13 £0.691 million). This all related to Vehicles, Plant and Equipment. Future cash payments under these leases within 1 year is £0.444 million (2012/13 £0.496 million) and within 2 to 5 years is £0.206 million (2012/13 £0.238 million).

38. Public Private Partnership

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

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

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

The value of assets held under PFI arrangements at 31 March 2014 is £59.658 million (2012/13 £60.765 million). The movement is depreciation of £1.166 million (2012/13 £1.164 million) and additions of £0.059 million. There is a deferred liability at 31 March 2014 for the financing of these assets of £58.340 million (2012/13 £59.306 million). Details of payments to be made under PFI arrangements are:

During the year a total of £0.966 million (2012/13 £0.898 million) was paid in relation to finance lease liabilities under the PFI contracts.

Notes to the Financial Statements

	Dalkeith Campus				Primary Schools			
	Liability	Interest	Service Charge	Total	Liability	Interest	Service Charge	Total
Period	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Within 1 year	457	2,595	1,803	4,855	583	2,403	1,770	4,756
Within 2 to 5 years	2,345	9,863	7,674	19,881	2,723	9,159	7,619	19,501
Within 6 to 10 years	4,557	10,703	10,722	25,981	4,667	10,175	10,662	25,504
Within 11 to 15 years	7,411	7,848	12,131	27,390	6,636	8,206	12,063	26,905
Within 16 to 20 years	10,628	3,205	12,378	26,211	9,436	5,406	13,648	28,490
Within 21 to 25 years	0	0	0	0	8,897	1,530	10,660	21,088
Total Contract	**25,398**	**34,213**	**44,708**	**104,319**	**32,943**	**36,879**	**56,421**	**126,243**

39. Retirement Benefits

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

Teachers

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

In 2013/14 the Council paid £4.855 million (2012/13 £4.914 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 14.9% (2012/13 14.9%).

Local Government Pension (Scotland) Scheme

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

In 2013/14 the Council paid an employer contribution of £11.071 million (2012/13 £11.239 million) into the Lothian Pension Fund, representing 23.1% (2012/13 24.2%) of pensionable pay. This is the expenditure met from Government Grants and Local Taxation. It is estimated that the employer contribution for the period to 31 March 2015 will be £9.846 million.

Changes to IAS 19 came into effect for the financial year to 31 March 2014. These changes required to be adopted retrospectively for the prior year in accordance with IAS 8. Comparatives for 2012/13 have been amended to reflect this adoption with an increased charge to the CIES of £12.738 million and a reduction in actuarial losses to £9.361 million.

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

Notes to the Financial Statements

CIES

2012/13		**2013/14**
£000		**£000**
Restated	Net cost of services:	
9,491	Current Service Cost	12,059
631	Past Service Costs (including curtailments)	130
	Net operating expenditure:	
15,215	Interest cost	16,702
(12,599)	Expected return on scheme assets	(13,712)
12,738	**Net charge to CIES**	**15,179**

Adjustment between accounting basis & funding basis under regulation

(12,738)	Reversal of net charges made for retirement benefits in accordance with IAS 19	(15,179)
11,239	Employers contributions payable to pension fund	11,071

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

In addition to the recognised gains and losses included in the CIES, actuarial losses of £10.441 million (2012/13 loss of £9.361 million) were included in other comprehensive income and expenditure in the CIES.

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

Reconciliation of present value of the scheme liabilities:

2012/13		**2013/14**
£000		**£000**
317,109	Opening Balance	369,730
9,491	Current Service Costs	12,059
15,215	Interest Cost	16,702
2,949	Contribution by Members	3,034
37,666	Actuarial losses/(gains)	14,929
631	Past Service Costs (including curtailments)	130
(888)	Estimated Unfunded Benefits Paid	(890)
(12,443)	Estimated Benefits Paid	(11,468)
369,730	**Balance at 31 March**	**404,226**

2012/13	Reconciliation of fair value of the scheme assets:	**2013/14**
£000		**£000**
Restated		
262,096	Opening Balance	303,857
12,599	Expected return on Assets	13,712
2,949	Contributions by Members	3,034
10,351	Contributions by the Employer	10,181
888	Contribution in respect of unfunded benefits	890
28,305	Actuarial gains	4,488
(888)	Unfunded Benefits paid	(890)
(12,443)	Benefits paid	(11,468)
303,857	**Balance at 31 March**	**323,804**

Notes to the Financial Statements

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

Scheme History

	2013/14	2012/13	2011/12	2010/11	2009/10
	£000	**£000**	**£000**	**£000**	**£000**
Present value of liabilities	(404,226)	(369,730)	(317,109)	(322,404)	(350,936)
Fair Value of Assets	323,804	303,858	262,096	258,602	241,678
Surplus/(deficit)	**(80,422)**	**(65,872)**	**(55,013)**	**(63,802)**	**(109,258)**

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £404.226 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £80.422 million.

However, under pension regulations, contribution rates are set to meet 100% of the overall liabilities of the fund. The fund's actuary reported that, at 31 March 2011, the funding level was 98% and that a period of 20 years has been adopted in assessing the level of contribution required to fund that deficiency. The employers contribution in 2013/14 was 273% of employees contributions.

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the protected unit credit method, an estimate of the pensions that will be payable in future years are dependent on assumptions about mortality rates, salary levels etc. The pension fund liabilities have been assessed by the actuary and are based on the latest full valuation of the scheme as at 31 March 2014.

The main assumptions used by the actuary have been:

2012/13		**2013/14**
	Longevity at 65 for current pensions (Mortality):	
20.4	Men (years)	20.4
22.8	Woman (years)	22.8
	Longevity at 65 for future pensions (Mortality):	
22.6	Men (years)	22.6
25.4	Woman (years)	25.4
2.8%	Inflation / Pension Increase Rate	2.8%
5.1%	Salary Increase Rate	5.1%
4.5%	Discount Rate	4.3%
	Take up of options to convert Annual Pension into Retirement	
50%	Lump Sum – Services to April 2009	50%
75%	Retirement Lump Sum - Services post April 2009	75%

Notes to the Financial Statements

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

31/03/2013		31/03/2014
57%	Equity Securities	66%
8%	Debt Securities	6%
11%	Private Equity	12%
8%	Real Estate	8%
11%	Investment Funds and Unit Trusts	2%
5%	Cash and Cash Equivalents	6%
100%		**100%**

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 deficit of the Lothian Valuation Joint Board.

Further information regarding this deficit can be found in Note 42 to the Financial Statements.

40. Contingent Liability

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

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

There are some 22 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 31.03.13 £000		As at 31.03.14 £000
15	Dalkeith Common Good	15
2	Penicuik Common Good	2
36	Community Mining Funds	36
85	Other Funds	77
138	**Total**	**130**

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.

None of the bequests are currently registered charities. The below bequests were formally registered as charities, however during 2013/14 permission was granted by OSCR to wind-up the funds.

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

Notes to the Financial Statements

42. Group Entities

Due to the small nature of entities or shares of entities that would form part of the Council's Group Accounts it was considered unnecessary to prepare these accounts for 2013/14. The significant change between 2012/13 and 2013/14 is the removal of Police and Fire Joint Boards from Local Authority Accounts to become national bodies.

Midlothian have a solely owned subsidiary in Pacific Shelf 826 Ltd (PS 826 Ltd). 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. Turnover during 2013/14 was £0.003 million with a loss of £0.008 million being made. The company held net liabilities of £0.546 million. The accounts of PS 826 (Ltd) are published separately and are available from the Head of Finance and Integrated Service Support, Midlothian House, Dalkeith EH22 1DN.

In 2013/14 £0.555 million was the Council's contribution towards expenditure on the Lothian Valuation Joint Board, representing a 9.08% share of the total. The Board presented a deficit on the provision of services of £0.404 million and held net liabilities of £7.579 million. All reserves were unusable.

Accounts can be obtained from the Treasurer, City of Edinburgh Council, City Chambers, Edinburgh EH1 1YJ.

43. Post Balance Sheet Events

In April 2014 a report was presented to Cabinet outlining significant concerns relating to a number of properties in the Council House development at Newbyres Crescent, Gorebridge. The homes in this development were built without protective gas membranes. Following a special Council meeting on 20th May 2014 an Incident Management Team (IMT) was established by NHS Lothian under the Public Health (Scotland) Act 2008to ensure the protection of public health for both the short and longer term. At the date of signing the accounts the Council had not received the final report from the IMT and a final decision on the site has not therefore been made. The ITM report will consider options based on the following criteria:

- Public health;
- Strength of evidence for effectiveness of the solutions;
- Technical or management dependency of the solutions;
- Timescale;
- Economic factors.

Until a final decision is made on the site a reliable estimate of the cost of the solutions cannot be made.

Housing Revenue Account Income and Expenditure Account

For the year ended 31 March 2014

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

2012/13		**2013/14**	**per house per week**
£000		**£000**	**£**
	Income		
19,636	Gross dwelling rents	21,182	58.35
440	Non dwelling rents	470	1.29
5,753	Other Income	1,239	3.41
25,829		**22,891**	**63.05**
	Expenditure		
5,346	Repairs and Maintenance	4,522	12.46
4,279	Supervision and Management	4,700	12.95
11,857	Depreciation of Non-Current Assets	12,670	34.90
0	Impairment of Non-Current Assets	73,692	202.97
1,570	Other Expenditure	1,736	4.78
0	Increase / (Decrease) in Bad Debt Provision	25	0.07
23,052		**97,345**	**268.13**
(2,777)	**Net Cost of HRA services per the whole council Comprehensive Income and Expenditure Account**	**74,454**	**205.08**
225	HRA share of Corporate and Democratic Core	250	0.69
(2,552)	**Net Cost of HRA Services**	**74,704**	**205.77**
	HRA share of the operating income and expenditure included in the whole council accounts		
(218)	Loss / (Gain) on sale of HRA fixed assets	(399)	(1.10)
3,927	Interest Payable and similar charges	4,857	13.38
(191)	Interest and Investment Income	(166)	(0.46)
5,681	Capital Grants Unapplied	1,125	3.10
(1)	Pensions Interest Cost and Expected Return on Pension Asset	208	0.57
6,645	**Deficit / (Surplus) for the year on the HRA Services**	**80,329**	**221.26**

Movement on the HRA Statement for year ended 31 March 2014

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

2012/13 £000		**2013/14 £000**	**per house per week**
6,645	Deficit for the year on the HRA Income & Expenditure Account	80,329	221.26
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
218	Gain/(loss) on sale of HRA fixed assets	399	1.10
(9,774)	Transfer to/(from) Capital Adjustment Account	(83,977)	(231.31)
(53)	HRA share of contributions to/from pension reserve	(451)	(1.24)
(2,964)	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**(3,701)**	**(10.19)**
(11,709)	Housing Revenue Account Balance brought forward	**(14,673)**	**(40.42)**
(14,673)	**Housing Revenue Account Balance carried forward**	**(18,374)**	**(50.61)**

Notes to the Housing Revenue Account

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

2. Housing Stock
At 31 March 2014 the Council had 6,850 houses (31 March 2013 6,835) which can be analysed as follows:

2012/13	**Type of Dwelling**	**2013/14**
Number		Number
776	1 Bedroom	802
3,826	2 Bedroom	3,824
1,895	3 Bedroom	1,889
330	4 Bedroom	326
8	5 / 6 Bedroom	9
6,835	Total	**6,850**

3. Rent Arrears
At the end of the year rent arrears amounted to £2.036 million (2012/13 £1.792 million) for which a provision for bad and doubtful debts of £0.525 million (2012/13 £0.500 million) exists.

4. Void Properties
The total value of uncollectable void rents for main provision properties amounted to £0.502 million (2012/13 £0.371 million).This has been netted against rental income.

Council Tax Income Account

For the year ended 31 March 2014

Councils raise taxes from residents by way of a property tax – the Council Tax – which is based on property values. Each dwelling in a local council area is placed into one of eight valuation bands, A to H. The Council declares a tax for band D properties and all other properties are charged a proportion of this, lower valued properties pay less; higher valued properties pay more. The Council Tax Income Account (Scotland) shows the gross income raised from council taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the authority.

The Council Tax Reduction Scheme was introduced in 2013/14 by the Scottish Government. This scheme replaced Council Tax Benefits, with funding being provided through the General Revenue Grant. Prior to 2013/14, funding for Council Tax Benefit was provided by the Department for Works and Pensions (DWP). This funding was offset against the cost of Council Tax Benefit, resulting in the net cost of benefits shown above.

2012/13 £000		**2012/13 £000**
44,103	Gross Council Tax levied and Contributions in Lieu	44,831
	Less :	
4,924	Discounts	4,946
0	Council Tax Reduction Scheme	5,346
1,169	Write-off of Uncollectable Debts and Allowances for Impairment	1,189
(94)	Council Tax Benefits (net of Government Grant)	0
38,104		**33,350**
(9)	Adjustments to previous years Community Charge and Council Tax	11
38,095	**Transfers to the General Fund**	**33,361**

Notes to the Council Tax Income Account

1. Calculation of the council tax base for the year 2013/14.

	Property Bands								
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Properties	1,001	12,461	10,495	4,736	4,427	2,719	1,832	165	37,836
Disabled relief	41	5	-15	-5	-9	-2	-15	0	0
Less									
Exemptions	70	463	242	74	207	36	27	4	1,123
Discounts (25%)	147	1,450	898	330	217	91	48	4	3,185
Discounts (50%)	1	5	3	2	1	2	2	0	16
Other Discounts	7	25	21	14	10	4	3	1	85
Council Tax Reduction Scheme	261	2,889	1,640	317	133	53	21	0	5,314
Effective properties	556	7,634	7,676	3,994	3,850	2,531	1,717	156	28,114
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D equivalents	370	5,938	6,824	3,994	4,705	3,656	2,861	312	28,660
Contributions in lieu – Band D equivalents									202
Total Council Tax Base									**28,862**
Provision for non payment									(1,000)
Total									**27,862**

2. Number of ‘effective’ properties and charges for each band

Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Numbers	556	7,634	7,676	3,994	3,850	2,531	1,717	156	28,114
£	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 2014

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

2012/13 £000		2013/14 £000
35,705	Gross rates levied	36,751
	Less:	
8,612	Reliefs and other deductions	8,148
0	Interest paid	0
741	Write-offs of uncollectable debts and allowance for impairment	755
53	Adjustments to previous years	896
26,299	**Net Non Domestic Rate Income**	**26,952**
	Allocated:	
26,366	Contribution to national non-domestic rates pool	27,021
(67)	Midlothian Council	(69)
26,299		**26,952**

Notes

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £26.665 million (2012/13 £24.871 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 46.2p per £ (2012/13 45.0p per £) where the rateable value was less than or equal to £35,000 and 47.1p per £ (2012/13 45.8 per £) where the rateable value exceeded £35,000.

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

4. Rateable Value as at the start of the year

Number 2012/13	Rateable Value 2012/13 £000		Number 2013/14	Rateable Value 2013/14 £000
1,656	44,108	Shops, Offices and Other Commercial Subjects	1,651	43,560
848	14,989	Industrial and Freight Transport	881	14,959
293	19,017	Miscellaneous (Schools etc)	292	18,781
2,797	**78,114**		**2,824**	**77,300**

Independent Auditor's Report to the members of Midlothian Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Midlothian Council for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet, and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-Domestic Rate Account and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

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

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Responsible Financial Officer and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the state of the affairs of the group and of the body as at 31 March 2014 and of the income and expenditure of the body for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and

- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In our opinion:

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of these matters.

Gary Devlin, for and on behalf of Grant Thornton UK LLP
7 Exchange Crescent
Edinburgh
EH3 8AN
30 September 2014

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

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

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

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

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

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

24. Entity

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