Midlothian Council
Audited
Financial Statements
2015/16

Financial Statement 2015/16
Contents

Management Commentary by the Head of Finance and Integrated Service Support

Introduction

The Financial Statements present the financial performance of Midlothian Council for the year to 31 March 2016. They are prepared in accordance with the International Financial Reporting Standards (IFRS) based on the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 (The Code) and are necessarily technical in places. The Management Commentary outlines Financial Performance for the year, Financial Outlook and Risks and also provides non-financial strategic and contextual information about the Council.

Financial Performance

The Council's financial performance is presented in the Comprehensive Income and Expenditure Account (CIES) on page 18. 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 (HRA) balances for the year. These are shown in the Movement in Reserves Statement on page 17 and in more detail in note 5 on page 37.

General Fund

The General Fund is the statutory fund into which all the receipts of the Council are required to be paid and out of which all liabilities of the Council are to be met, except to the extent that statutory rules provide otherwise. The General Fund is funded by Governments Grants, Fees and Charges, Council Tax Income, Non Domestic Rates Income and interest / returns on investments and is split between uncommitted balances, which are held to manage financial risks and unplanned expenditure, and balances which have been earmarked for specific purposes.

The outturn position for the General Fund compared to budget in 2015/16 is shown in the following table. Full details will be reported to Midlothian Council on 28th June 2016 and are available on the Council's website.

Table 1: General Fund – Performance against Budget

Service Area	Budget £000	Net Expenditure £000	(Under) / Overspend £000
Childrens Services	14,863	15,558	695
Communities and Economy	4,633	4,235	(398)
Education	77,653	76,957	(696)
Adult Social Care	36,894	37,234	340
Customer and Housing Services	12,004	12,400	396
Commercial Services	15,753	15,304	(449)
Finance and Integrated Service Support	12,100	12,304	204
Properties and Facilities Management	13,608	13,166	(442)
Investment Income	(180)	(300)	(120)
Loan Charges	7,493	7,078	(415)
Other Expenditure / (Income)	(1,541)	(675)	866
Net Service Expenditure	**193,280**	**193,261**	**(19)**
Council Tax Income	(40,000)	(40,251)	(251)
Scottish Government Grant	(156,320)	(156,320)	0
			-
General Fund Utilisation of Reserves	**(3,040)**	**(3,310)**	**(270)**

Actual net service expenditure for the year was £193.261 million representing 99.99% of the £193.280 million budget. General Fund services showed a net underspend against budget of £0.270 million. Funding through Council Tax was £0.251m more than budgeted. The sustained increase in housing in Midlothian outstripped the level of Council Tax income growth built into budgets and in-year collection improved to 94.4% which is an increase of 0.6% from the previous year. Direct debit now accounts for 74% of total Council Tax income collection which is an increase of over 2% on 2014/15.

Slippage in Capital programmes allowed deferment of long term borrowing coupled with opportunities afforded by the continuing low interest environment gave rise to a £0.417 million underspend against budget. Encouragingly the Council also saw some areas with significantly lower running costs than budgeted.

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The General Fund Reserve at the start of the year was £21.315 million, of which £8.472 million was earmarked for specific purposes in 2015/16. The position at 31st March 2016 is a reserve of £24.625 million of which £7.821 million was earmarked for specific purposes leaving £16.774 million as a contingency. The contingency is £3.931million more than at 31st March 2015 and is above the level set out in the reserves strategy which is 4% of net expenditure which equates to approximately £8 million. It represents 8.7% of budgeted net expenditure which is 2.1% more than the position at 31st March 2015.

The earmarked element of the reserve includes ring-fenced funding from partner organisations of £2.811 million, budgets provided for specific purposes where spend has slipped into 2016/17 of £1.747 million, budgets for schools in accordance with the Scheme of Devolved School Management of £1.020 million, funding to support the Council Transformation Programme of £2.203 million and funding to support the economic development opportunities offered by the opening of the Borders Rail line of £0.069 million.

In line with previous Council decisions a number of specific initiatives were funded from uncommitted reserves during the year including staff severance costs, contribution to the preparation of the Edinburgh City Deal bid, decriminalising the control of parking within the county and publicity surrounding the opening of the Borders Railway line.

<u>Housing Revenue Account</u>

The Council has a statutory obligation to maintain a revenue account for its housing provision in accordance with the Housing (Scotland) Act 1987. The 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 £3.536 million in 2015/16 and this increased the reserve to £24.913 million. There was an underspend of £0.994 million against budget mainly due to continuous capital investment in existing stock resulting in a decrease in spend on reactive repairs and delays in refurbishing works at Pentland and Midfield House resulting in an underspend on caretaking costs.

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 2015/16 £6.9 million was invested in new council houses and £4.6 million on SHQS improvement works. In the period to 31 March 2019 it is planned to invest a further £63 million on new council houses and £22 million on SHQS improvements.

<u>Capital</u>

The Council continues to make significant capital investment in its non housing assets spending £18.9 million in 2015/16. This included £9.6 million on school upgrades, £3.8 million on roads, pavements and street lighting, £2.0 million on centralised property upgrades and £1.9 million on replacing and upgrading the Council's fleet. The main source of funding was government grants. A full analysis of capital expenditure and financing is provided in note 32 to the financial statements on page 58.

The Council is able to regulate its own capital spending limits within a prudential framework recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and endorsed by the Scottish Government, provided it operates within a series of indicators. The Council's capital expenditure is a key driver of treasury management activity and these indicators are relevant for the purposes of establishing an integrated treasury management strategy which demonstrates that the Council's capital investment plans are affordable, prudent and sustainable.

The Capital Financing Requirement represents the Council's underlying need to borrow for capital expenditure. 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 2015/16 at the time the budget was set was £296.149 million.

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The actual position was £254.023 million with total debt at 31st March 2016 of £237.272 million demonstrating that the Council maintains its intention to have an under borrowed position. This means that the Council's capital borrowing requirement has not been fully funded by loan debt and is using cash from reserves and balances to support capital programmes whilst investment returns are low.

During the year the Council's aggregate external debt was contained within both the operational boundary and the authorised limit. The authorised limit of £336.676 million for 2015/16 reflects a level of debt which could be affordable in the short term but may not be sustainable in the long term. The operational boundary of £302.199 million for 2015/16 is an estimate of the most likely maximum debt requirement and represents the limit beyond which external debt is not expected to exceed.

The ratio of financing costs to net revenue stream represents the proportion of the budget that is allocated to the financing of capital expenditure and highlights the trend in this allocation through financial years. Actual figures for General Services were 3.69% which is in line with approved strategy and 35.01% for HRA which is reflected in long term HRA financial plans to 2029/2030.

The measure of the impact of capital investment on council tax and weekly rents shows the change in council tax and rents necessary to support increased spending on capital plans and helps to illustrate their affordability. In 2015/16 there was a reduction of £5.85 per Band D dwelling for General Services which was a consequence of lower than planned Capital Expenditure coupled with a low average cost of borrowing. The impact on house rents was a reduction of £1.44 per week which again falls well within long term HRA plans.

The General Services capital plan for future years will see further major investment in school infrastructure including a new Loanhead Centre to accommodate Paradykes primary school, Loanhead library and Loanhead leisure centre, two new replacement primary schools at Roslin and Bilston and a new Gorebridge North primary school. There will also be capital investment to complement the new Design, Build, Finance & Maintain (DBFM) projects for the Newbattle Centre and the Zero Waste Residual Treatment Facility. 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 borrowed money throughout the year to meet actual and anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. At 31st March 2016 long term borrowing amounted to £198.917 million. During 2015/16 new long term borrowing of £7.249 million was taken from the Public Works Loans Board (PWLB) and £0.200 million from Salix Finance. Interest rates on new borrowing remained at historically low rates and also benefited from a 0.2% discount that was offered by the Treasury. The Council also entered into two forward starting loan commitments with Deutsche Pfandbriefbank which involves the Council committing to drawn down loans over the course of the next 3 financial years, at pre-defined draw down dates, and at fixed interest rates which are extremely competitive when benchmarked to the current historically low interest rate environment. The average rate of interest paid on all external debt increased marginally to 3.61% in 2015/16 from 3.59% in 2014/15. The internal loans fund rate increased from 3.23% in 2014/15 to 3.28% in 2015/16 and is again expected to remain one of the lowest amongst Scottish mainland Local Authorities.

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.

Assets and Liabilities

The Balance Sheet on page 20 summarises the Council's assets and liabilities as at 31st March 2016. Total net assets increased by £91.792 million from the position at 31st March 2015.

Non-current and Current Assets

Operational and non operational assets increased in value by £33 million mainly due to a upward revaluation of the Council's primary school estate which was fully revalued in the year. Short term investments increased by £15 million and cash and cash equivalents reduced by £4 million reflecting a net increase in the amount of cash placed on deposit but with a much larger value having a maturity greater than 3 months.

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Net Pension Liability
The net pension liability of the Council as at 31st March 2016 was calculated in accordance with the requirements of International Accounting Standard 19 (IAS 19) and amounts to £68.146 million which is a decrease of £47.404 million from 31st March 2015. The main reason for this is the result of an increase in the net discount rate over the period. 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 snapshot of the position at 31st March 2016. 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 31st March 2014 shows a funding level of 93% of liabilities which is a reduction from 98% funding at the last valuation at 31st March 2011. This has no immediate impact on the council budget until 2018/19 where a 0.5% increase in employers contribution rate is anticipated.

Provisions, contingencies and write offs
The Council has made provisions for potential liabilities in respect of unsettled insurance claims of £1.640 million.

The provision for non collection of debt at 31st March 2016 was £32.5 million which is a slight increase on the position a year ago. There were a number of immaterial write offs approved by Cabinet during the year.

Financial Outlook and Key Risks
The current economic climate impacts on the Council and the services it provides in a number of ways. From a financial perspective 2015/16 saw continued demographic pressures particularly around people with learning disabilities, elderly care and population growth in Midlothian. It is expected that these pressures will be sustained 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. Welfare reform, the integration of health and social care and the implementation of the Children Act 2014 as well as the planned expansion in early learning and childcare are major policy developments that will not only impact on the council budgets but also change the way services are provided.

2016/17 saw the Scottish Government publish a one year budget and grant settlement, as such Councils are currently unaware of the level of funding that will be available to them for 2017/18 and beyond. The UK Government budget faces the impact of very tough spending reductions and all indications are that for the public sector in general and Local Government in particular this will continue. It is therefore inevitable this will have an adverse impact on the amount of central funding available to the Council.

In March 2016 the Council set a balanced budget for 2016/17 which included savings of £4.963 million of savings and a £2.668 million utilisation of reserves.

In the context of reduced funding and growth in demand for services the Council have a considerable challenge to ensure future expenditure plans are sustainable. Latest projections for 2017/18 show a remaining budget gap of approximately £10 million with potential for a significant increase when extending the timeframe into the next decade.

The Council continues to work within approved Financial Strategies. Despite some slippage in achieving savings targets the Council's transformation plan continues to deliver efficiencies and is regularly refreshed to ensure its scope and ambition remains focused and is in line with corporate aims.

Treasury Risk
Financial year 2015/16 saw an improvement in the UK economy with the risk of further banking failures reduced. The Council continues to mitigate any risks associated with the security of cash deposits through use of only institutions approved as counterparties in accordance with the Capita credit scoring methodology and operating with restrictions on funds that can be placed with each institution. Regular and detailed advice is provided by the Council's treasury advisers ensuring that any market changes impacting on the approved investment strategy can be acted upon immediately.

The impact of Brexit on the Council's Treasury activities has seen long term borrowing rates drop by c. 0.80%-1.00%, allowing the Council to access less expensive longer term loans. At the same time, in August the Bank of England cut the

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Base Rate by 0.25% to 0.50% and increased their Quantitative Easing stimulus, which will result in lower rates of return on the Council's investment portfolio other than those investments which are at a fixed rate of interest.

Treasury strategy is updated regularly following discussion with treasury advisers to ensure that the Council maintains adequate cash balances to support investment plans and that any movements in current or forecast borrowing rates are reflected.

Strategic Plans and Performance

Midlothian Council delivers its priorities through the Community Planning Partnership and the Single Midlothian Plan. Community Planning partners have agreed the vision for Midlothian as "Midlothian – a great place to grow" with the following three areas previously identified as key priorities.

- Economic growth and business support – we will increase economic growth as a basis for a more prosperous Midlothian;
- Positive destinations for young people – this priority is particularly important to us because life chances can be improved for our greatest assets;
- Early years – Getting it Right for Every Midlothian Child.

The Community Planning Partnership priorities for 2015/16 have shown steady improvement across Early Years, Positive Destinations and Economic Development and these areas will be further developed in 2016-19. The Community Planning Partnership has recently reviewed key priorities and whilst they continue to build on the work previously undertaken, the key priorities for the period 2016-19 are:

- Reducing the gap in learning outcomes;
- Reducing the gap in health outcomes;
- Reducing the gap in economic circumstances.

Three approaches to how the Council works with its communities have been agreed – preventative intervention, co-production and capacity building and localising / modernising access to services.

In addition to the three key priorities and three approaches the Council will also focus on reducing the gap between outcomes for residents living in parts of the county which for many years have shown a significant gap between their outcomes and the average outcomes for Midlothian and Scotland as a whole. The areas targeted are Dalkeith Central/Woodburn; Mayfield/Easthouses and Gorebridge.

The Single Midlothian Plan incorporates five overarching thematic groups which support the achievement of outcomes. The thematic approach is used for quarterly performance reporting and the themes are as follows:

- Adult Health, Care – Responding to growing demand for the adult social care and health services;
- Community Safety – Ensuring Midlothian is a safe place to live, work and grow up in;
- Getting it Right for Every Midlothian Child – Improving outcomes for children, young people and their families;
- Improving Opportunities for People in Midlothian – Creating opportunities for all and reducing inequalities;
- Sustainable Growth and Housing – Growing the local economy by supporting business growth and responding to growing demand for housing in a sustainable environment.

During 2015/16 the Council demonstrated significant progress towards these priorities and this is documented in detail in the Midlothian Council Annual Performance Report – 2015/16 that was presented to a special Performance Review and Scrutiny Committee on Wednesday 8rd June 2016 and can be viewed on the Council website.

The Council continue to actively participate in the Local Government Benchmarking Framework which is grounded in standard information on council services provided to local communities across Scotland, results for 2014/15 are reported as part of the quarterly performance reporting process and are also available on the Council's website.

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In 2013 the Council published its first Equality Outcome and Mainstreaming report covering the period from 2013 to 2017. It concentrated on key areas of inequality as determined by local communities and balanced those with national areas of concern. This means that outcomes centre on community safety, socio-economic deprivation, the old and the very young, children's services, improving opportunities in Midlothian and sustainable growth. More information can be found on the Equality and Diversity section of the Council's website.

The Council's plans for Sustainable growth are outlined in the Single Midlothian Plan and include supporting local economies and emerging markets in recycling and renewable technologies and developing and providing practical solutions to support our ways of living. Progress is being made towards delivering these plans and can be seen in detail in the Sustainable Development section of the Council's website.

Structure of Council Leadership and Council Staff

The political makeup of the Council is 8 SNP members, 8 Labour members, 1 Green party member and 1 independent member. The SNP together with the independent member form the administration with the Leader of the Council being Catherine Johnstone and the Provost being Joe Wallace. The Council's Chief Executive is Kenneth Lawrie and it is structured in 3 Directorates:

- Health and Social Care (Director, Eibhlin McHugh);
- Resources (Director, John Blair);
- Education, Communities and Economy (Director, Mary Smith).

At the 31st March 2016 the Council had 4,145 employees on its payroll of which 2,992 were female and 1,153 male. The Council's Leadership Team consists of the Chief Executive, Directors and eight Heads of Service and has a gender split of 7 male and 5 female.

Sickness Absence days per employee in 2015/16 was 8.29 days. This is slightly less than the 8.85 days experienced in 2014/15 in which we were ranked 6th out of all Scottish Local Authorities for teachers and 11th for non-teaching staff.

Emerging Issues, Service Changes and Future Developments

During 2015 the Council introduced the Delivering Excellence framework- A programme for change which looks at how we do things, with a focus on improving outcomes for our residents and our communities within the context of the financial and other challenges ahead. To do this, we need to consider:

- What our priorities are;
- What we can change or do differently;
- Which services can be improved;
- Which services we can stop.

Employee engagement and empowerment is at the core of the Delivering Excellence framework with every council service being asked to look at what it does, how much it costs, how it performs and how it could be changed and improved. A key element of the framework is how we engage with our communities to inform and support changing the way we do things at Midlothian Council and ensure that services are fit for the future. We want residents to tell us what the priorities are for them, their families and their communities - and we want them to help us reshape our services to meet those priorities.

Health and Social Care reform continues to move forward with the Scottish Government approving the proposed Midlothian Integration Scheme in June 2015. The Midlothian Integration Joint Board met for the first time in August 2015. The Board is responsible for strategic planning in relation to the delivery of Health and Social Care services in Midlothian. In December 2015 it approved a three year strategic plan. From 1st April 2016 Health and Social Care budgets were delegated to the Joint Board and directions on their use were issued by the Board. At an operational level work is ongoing to implement joint management structures.

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The Borders Rail line opened in September 2015 and passenger numbers have exceeded initial expectations. With the 0.5 million passenger mark having been passed and an average of 23,000 passengers using the line on a weekly basis it is predicted that final passenger numbers for the first year will exceed 1.2 million. Work continues to maximise the opportunities that the new railway line brings to Midlothian. Substantial activity to secure long-term economic benefits in Midlothian from the opening of the Borders Railway is supported through the appointment of specialist staff to augment the work of the Council's in house team in areas of business development and tourism opportunities. The Council has provided funding of £0.300 million to support this.

Children & Young People (Scotland) Act 2014: There is a great deal of work being undertaken in relation to ensuring that we meet all relevant parts of this new piece of legislation. We have a Corporate Parenting Plan which is to be endorsed at the Getting it Right for Every Midlothian Child (GIRFEMC) Board and which will improve how we engage and work with our most vulnerable children and young people and ensure they are offered the same opportunities in life as others. Implementation of the Early Learning and Childcare (ELC) provisions continues to be a priority. All centres now have Senior Childcare Development workers as a core part of their team and have been fully staffed from August 2015 to ensure seamless, well supported transitions to our centres from home for all children.

In May 2015 there was a major fire in the former Hopefield Primary School which was being used in the interim as a records storage facility. The vast majority of its contents were destroyed and the building was damaged to the extent that it needed demolishing. In the meeting of the 17th of May 2016 Midlothian Council decided to rebuild a school on the site. The carrying value of the asset in the Balance Sheet reflects this decision.

The delay to the plans to replace Newbattle High School was resolved in November 2015 and the project reached financial close in February 2016. This new facility will provide enhanced educational and leisure facilities for Newtongrange, Mayfield, Gorebridge and the surrounding communities and is expected to open in March 2018.

New primary schools will open in Gorebridge and Bilston in Autumn 2016. These will provide state-of-the-art learning environments and community facilities in two of our growing communities. The cost of these schools is anticipated to be £16 million, the majority of the funding coming from developer contributions.

Conclusion

Sound financial management and planning has allowed the Council to successfully manage its activities within budget during 2015/16 whilst continuing to invest in its assets and in new major strategic initiatives. Significant financial challenges lie ahead and work continues to manage these.

I would like to acknowledge the significant effort in producing the Financial Statements and express my thanks to my own team and also to colleagues throughout the Council for the significant dedication and commitment shown throughout the year to financial matters.

Signed:

Gary Fairley
Head of Finance and Integrated Service Support
20 September 2016

Statement of Responsibilities for the Financial Statements

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

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 Integrated Service Support 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 2016 and its income and expenditure for the year then ended.

Signed:

Gary Fairley
Head of Finance and Integrated Service Support
20 September 2016

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; and 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 and guidance on Delivering Good Governance in Local Government. 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.

The Code of Corporate Governance details 6 Principles and 18 elements of good Governance. A copy of the Local Code of Corporate Governance is on our website at www.midlothian.gov.uk. Elements included are:

- 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 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;
- Encouraging individuals from all sections of the community to engage with the Council;
- Undertaking equality impact assessments where required; and
- Obtaining professional advice on matters that have legal or financial implications.

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 Chief Financial Officer has overall responsibility for the Council's financial arrangements and is professionally qualified and suitably experienced to lead the Council's finance function.

The Council is responsible for conducting each financial year, a review of the effectiveness of its governance framework, including risk management and the systems for internal control and financial control. The review of the effectiveness of the Council's governance framework is informed by:

- The work of the Corporate Management Team;
- The work of Council managers and Financial Services staff;
- The annual assurance questionnaires that are provided by all 8 Heads of Service;
- An annual review, by Internal Audit, of compliance with the Council's Local Code of Corporate Governance;
- The Audit Manager's annual report which is based on internal audit reports from across the range of Council services;
- Reports from the Council's external auditor; and
- Reports from other external review bodies, agencies and inspectorates.

The key governance arrangements and controls are set out in the local Code of Corporate Governance. Each year, using an assurance template, Internal Audit samples elements in the code to determine whether these are working effectively and that therefore the governance framework is working effectively.

In addition each Head of Service is required to undertake an annual self assessment of their area of responsibility using an assurance template where key elements of governance are examined.

Annual Governance Statement

Neither of these assessments highlighted any issues that would impact on the level of effectiveness of the Council's governance framework. A small number of improvements were identified and these are noted below in the action plan.

The statement has also been informed by the work undertaken by Internal Audit who, following the requirements of the Local Authority Accounts (Scotland) Regulations 2014, conducted an annual review of the effectiveness of the Council's system of internal control. The Audit Manager's overall Audit Opinion for the Annual Governance Statement is included within the Internal Audit Annual Report for 2015/16 and concludes that reasonable assurance could be provided on the Council's framework of control for the year to 31 March 2016 and that overall, internal controls had been implemented and were being monitored by management in line with Financial Directives, Council Policies and the other key essentials of a robust Internal Control Environment. The programme of Internal Audit work undertaken in respect of 2015/16 was sufficient in breadth and depth to allow a robust and balanced opinion to be formed.

The Head of Audit (the Audit Manager) has responsibility for the Council's Internal Audit function and reports functionally to the Audit Committee and operationally to the Chief Executive to allow appropriate independence. The Audit Manager is professionally qualified and suitably experienced to lead and direct the Internal Audit team.

The Public Sector Internal Audit Standards (PSIAS) require that an external assessment be conducted at least once every 5 years by a qualified, independent assessor from outside the organisation over the level of compliance against PSIAS by the Internal Audit Section. An external assessment was not undertaken in 2015/16 but will be undertaken in late 2016/17 as part of the reciprocal assessments by the Scottish Local Authority Chief Internal Auditors' Group (SLACIAG). However a self evaluation of compliance with the Public Sector Internal Audit Standards by Midlothian Council's Internal Audit Section was undertaken by the Internal Audit Manager. This evaluation demonstrated that the key elements of the Standards were complied with during the year. The Council's external auditor conducts an annual review of the effectiveness of the Council's Internal Audit Service and arrangements and reports its findings to the Council within its Annual Audit Report. The latest available assessment (2014/15) was satisfactory.

A number of risks were well managed in 2015/16 and this is demonstrated by the work undertaken in setting up the Integrated Joint Board and the launch of the Scottish Borders Rail Line.

A number of governance improvements were highlighted in the 2014/15 self assessment and progress has been made in 2015/16 on the following:

- Having a positive impact on the key priorities of economic recovery and business growth; positive destinations for young people; and early years – getting it right for every Midlothian child;

This action has continued to be part of performance monitoring throughout the 2015/16 performance management and scrutiny cycle and reported to Cabinet and Performance Review and Scrutiny Committee with the end year update due as part of the quarterly reporting in late May, early June 2016. The Community Planning Partnership priorities for 2015/16 have shown steady improvement across Early Years, Positive Destinations and Economic Development and these areas will be further developed in 2016-19.The Community Planning Partnership have recently reviewed key priorities and whilst they continue to build on the work previously undertaken, the key priorities for the period 2016-19 are: reducing the gap in learning outcomes; reducing the gap in health outcomes; and reducing the gap in economic circumstances.

- The continued delivery of the approved financial strategy in what continues to be a challenging financial environment for Local Government. Ensuring that measures are developed and implemented to secure the necessary financial savings to balance future years' budgets;

This action is ongoing and updates are provided through regular reports to Council. The Council has already taken decisions in respect of its 2016/17 budget to address a budget shortfall of £7.6 million. Balancing future year's budgets will continue to be a focus of action over coming years.

- Continued development of risk management processes by aligning risk assessments with service planning and mitigation of risks associated with delivering the Council's outcomes;

In 2015/16, work has been undertaken on the Corporate Risk Register through a bench marking exercise with other local authorities and public sector organisations and the revised Corporate Risk Register has had input from the Corporate Management Team and Directors. A strategic risk profile approach has been used to identify current issues, emerging risks and opportunities. The Risk Manager is now reviewing operational risk registers with service managers, with support from Performance Officers, to assess current and emerging risks which will inform the Strategic Risk Profile. An assessment as to whether Risk Registers should be provided to Cabinet and Council, in addition to the Audit and Risk Committees is being undertaken, given that risk management can be used to help inform decision making and shaping strategy.

- Procurement reform arising from the Procurement Reform Bill and new EU Directives;

All procedures and processes are currently being updated to comply with the new procurement legislation, some elements of which are not due to be implemented until 2017.

- Continued compliance with the Public Services Network code of connection requirements;

The 2016/17 PSN Code of Connection was submitted to the Cabinet Office on 10 March 2016 for approval. It is likely that the Council will maintain ongoing PSN compliance.

- Responding to the impact of further Welfare Reform changes;

Action has been taken to mitigate the impact on households affected and also in the income to the Council but there are further changes with Universal Credit migration and Personal Independence Payments. There is no change in the strategic approaches guiding Midlothian Council's response to Welfare Reform, which is to mitigate against the impact of the effects within the capability and resources of the Council and its partners.

- The Health and Social Care Integration agenda with the continued establishment of joint services;

The Midlothian Integration Scheme was approved by the Scottish Government on 27 June 2015 and has now been legally constituted with the first Board meeting of the Integrated Joint Board held on 20 August 2015. From 2016/17, the Integrated Joint Board takes on responsibility for delivery of the services delegated to it by Midlothian Council and NHS Lothian. The Integrated Joint Board at its meeting on 10 December 2015 approved its Strategic Plan and directions have now been issued to Midlothian Council and NHS Lothian on how these delegated funds should be used. A process of financial assurance has been undertaken by the Section 95 Officer on amounts transferred to the Integrated Joint Board by Midlothian Council and a report on this process is also to be submitted to the Midlothian Audit Committee by the Internal Audit function of the Council.

- The Midlothian Police and Fire and Rescue Board provides the local scrutiny and accountability for Police and Fire and Rescue services as outlined in the Police and Fire Reform (Scotland) Act 2012. This Board was newly established in February 2016 and training opportunities are currently being developed;

During 2015/16, a training workshop was held with the previous Safer Communities Board, Elected Members and partnership representatives from across the Community Safety and Community Planning Partnership who attended on the topic of Community Justice and proposals to change the remit of the Community Safety Partnership to incorporate Community Justice. The Board also received regular update reports on the new national model for Community Justice. A programme of training opportunities will be provided to members of the Police and Fire and Rescue Board, as the Police and Fire and Rescue Board provides the local scrutiny and accountability for Police and Fire and Rescue services as outlined in the Police and Fire Reform (Scotland) Act 2012.

- Recovering costs incurred at Newbyres Crescent, Gorebridge

The Council is currently pursuing a claim in the Court of Session against three companies for losses which arises from the demolition of 64 council houses at Newbyres Crescent, Gorebridge. The houses were built without adequate protection to prevent the ingress of ground gas, particularly carbon dioxide which is a danger to human health. The claim is at a preliminary stage but is likely to proceed to a substantive hearing in financial year 2017/2018.

Those actions which are underway but which have not yet been fully concluded (ie the Business Transformation Programme; Welfare Reform; Procurement and Risk Management) will continue to be progressed in 2016/17.

The following table sets out improvements to the governance framework which are to be progressed in 2016/17:

Annual Governance Statement

Area for Improvement	Proposed Action in 2016/17
Key priorities and Financial Strategy	To continue to progress the Council’s key priorities and deliver the Financial Strategy
Procurement	To update all procedures and processes to comply with the new procurement legislation
Compliance with new Code of Corporate Governance	Updating the Code of Corporate Governance to allow full compliance with the new International Framework of Good Governance in the Public Sector
Compliance against the new CIPFA code of practice on Fraud and Corruption	Review the current Counter Fraud Policy and Strategy, Whistle-blowing Policy and create a separate Anti-bribery and Corruption Policy to allow full compliance against the new CIPFA code of practice on “Managing the Risk of Fraud and Corruption”
Adoption of audit recommendations	To adopt the recommendations made by Internal Audit on the areas where significant weaknesses in control have been identified during the year (including Developer Contributions and Business Gateway)
Serious Organised Crime and Corruption	Undertake a high level assessment of the Council’s readiness in relation to the risks posed by Serious Organised Crime and Corruption. An improvement plan for recording, managing, and addressing areas of potential risk exposure has been developed and an Integrity Board will be convened to take this forward.
Disaster recovery plans	Ensure that disaster recovery plans have been adequately tested and to monitor the on-going testing of these.
Standing Orders	Updates are required to Standing Orders and the associated documents (Scheme of Administration and Scheme of Delegation) caused by the recent management review and subsequent changes to the Council Directorates
Brexit	To consider the effects on the Council if Article 50 of the Treaty on the European Union is triggered and to consider plans to ensure the Council’s readiness and to minimise risk to the Council in terms of resultant changes to procurement, data protection, planning, environmental legislation, employment law and grant funding.

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 systems of internal control, risk management and 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:

Catherine Johnstone, Leader of the Council **Kenneth Lawrie, Chief Executive**

20 September 2016

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 statutory reserves line shows the statutory General Fund Balance before any discretionary transfers to or from statutory reserves held by the Council.

2014/15 – Previous Year Comparative	Note	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Repairs & Renewals Fund £000	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
Opening Balances at 1 April 2014		**(20,511)**	**(18,374)**	**(10,658)**	**(2,553)**	**(52,096)**	**(259,236)**	**(311,332)**
Movement in Reserves 2014/15								
(Surplus) or deficit on provision of services	CIES	17,816	37,694	0	0	**55,510**	**0**	**55,510**
Other Comprehensive Expenditure and Income	CIES	0	0	0	0	**0**	**14,300**	**14,300**
Total Comprehensive Expenditure and Income		**17,816**	**37,694**	**0**	**0**	55,510	14,300	69,810
Adjustments between accounting basis & funding basis under regulations	**5**	**(19,140)**	**(40,696)**	**(4,195)**	**0**	**(64,031)**	**64,031**	**0**
Net (increase) / decrease before transfers to / from Other Statutory Reserves		**(1,324)**	**(3,002)**	**(4,195)**	**0**	**(8,521)**	**78,331**	**69,810**
Transfers (to) / from Other Statutory Reserves		520	0	0	(520)	**0**	**0**	**0**
(Increase) / Decrease in 2014/15		**(804)**	**(3,002)**	**(4,195)**	**(520)**	**(8,521)**	**78,331**	**69,810**
Balance at 31 March 2015 carried forward		**(21,315)**	**(21,376)**	**(14,853)**	**(3,073)**	**(60,617)**	**(180,905)**	**(241,522)**

2015/16 – 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 2015		**(21,315)**	**(21,376)**	**(14,853)**	**(3,073)**	**(60,617)**	**(180,905)**	**(241,522)**
Movement in Reserves 2015/16								
(Surplus) or deficit on provision of services	CIES	(2,092)	9,124	0	0	**7,032**	**0**	**7,032**
Other Comprehensive Expenditure and Income	CIES	0	0	0	0	**0**	**(98,823)**	**(98,823)**
Total Comprehensive Expenditure and Income		(2,092)	9,124	0	0	**7,032**	**(98,823)**	**(91,791)**
Adjustments between accounting basis & funding basis under regulations	**5**	**(1,751)**	**(12,661)**	**(525)**	**0**	**(14,937)**	**14,937**	**0**
Net (increase) / decrease before transfers to / from Other Statutory Reserves		**(3,844)**	**(3,537)**	**(525)**	**0**	**(7,906)**	**(83,885)**	**(91,791)**
Transfers (to) / from Other Statutory Reserves		534	0	0	(534)	**0**	**0**	**0**
(Increase) / Decrease in 2015/16		**(3,310)**	**(3,537)**	**(525)**	**(534)**	**(7,906)**	**(83,885)**	**(91,791)**
Balance at 31 March 2016 carried forward		**(24,625)**	**(24,913)**	**(15,378)**	**(3,607)**	**(68,523)**	**(264,791)**	**(333,314)**

Comprehensive Income and Expenditure Statement

For the year ended 31 March 2016

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.

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.

2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000	**Continuing Operations**	Notes	2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
91,254	3,061	88,193	Education Services		85,671	3,212	82,459
65,272	13,557	51,715	Social Work		65,992	14,707	51,285
16,430	4,971	11,459	Culture and Related Services		14,841	5,425	9,416
7,397	265	7,132	Roads and Transport Services		8,515	2,809	5,706
8,720	1,538	7,182	Environmental Services		9,884	1,127	8,757
8,427	4,288	4,139	Planning and Development Services		9,328	3,292	6,036
53,825	23,098	30,727	Housing Revenue Account		24,531	24,402	129
40,488	30,904	9,584	Other Housing Services		41,464	30,854	10,610
3,376	90	3,286	Corporate & Democratic Core		3,069	107	2,962
688	949	(261)	Central Services to the Public		(731)	781	(1,512)
6,498	0	6,498	Non-distributable Costs	6	5,630	0	5,630
302,375	**82,721**	**219,654**	**Deficit on Continuing Operations**		**268,194**	**86,716**	**181,478**
		6,826	Other Operating Expenditure	7			831
		16,120	Financing and Investment Income and Expenditure	8			16,328
		(187,090)	Taxation and Non-Specific Grant Income	9			(191,605)
		55,510	**(Surplus) or Deficit on Provision of Services**				**7,032**
		(11,584)	(Surplus) or Deficit on revaluation of non current assets				(41,027)
		29,203	Remeasurement of the net defined benefit liability	36			(55,787)
		(3,319)	Other (Gains) / Losses				(2,009)
		14,300	**Other Comprehensive (Income) and Expenditure**				**(98,823)**
		69,810	**Total Comprehensive (Income) and Expenditure**				**(91,791)**

Balance Sheet

As at 31 March 2016

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".

31st March 2015			**31st March 2016**
£000		**Notes**	**£000**
611,295	Property, Plant and Equipment	10	640,904
1,187	Intangible Assets	11	1,073
26	Heritage Assets	13	27
3,382	Long Term Investments	15	5,189
3,073	Long Term Debtors	16	3,639
618,963	**Long Term Assets**		**650,832**
40,152	Short Term Investments	14	55,007
800	Assets held for Sale	12	2,535
987	Inventories		826
20,658	Short Term Debtors	16	18,292
14,337	Cash and Cash Equivalents	17	10,710
76,934	**Current Assets**		**87,370**
44,237	Short Term Borrowing	14	41,073
25,468	Short Term Creditors	18	23,747
1,750	Provisions	19	1,640
18,049	Grants Receipts in Advance	30	16,395
89,504	**Current Liabilities**		**82,855**
193,143	Long Term Borrowing	14	198,917
171,728	Other Long Term Liabilities	20	123,116
364,871	**Long Term Liabilities**		**322,033**
241,522	**Net Assets**		**333,314**
60,617	Usable Reserves	5&21	68,523
180,905	Unusable Reserves	22	264,791
241,522	**Total Reserves**		**333,314**

Signed:

Gary Fairley
Head of Finance and Integrated Service Support
20 September 2016

Cash Flow Statement

For the year ended 31 March 2016

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. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financial 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. 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.

2014/15 £000	**Revenue Activities**	**Notes**	**2015/16 £000**
(55,510)	**Net surplus or (deficit) on the provision of services**		**(7,032)**
82,936	Adjustment to surplus or deficit on the provision of services for non cash movements	23	45,672
(15,480)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	15,005
11,947	**Net Cash Flows From Operating Activities**		**53,645**
(41,802)	Net cash flows from investing activities	24	(58,717)
7,672	Net cash flows from financing activities	25	1,445
(22,183)	**Net Increase or Decrease in Cash and Cash Equivalents**		**(3,627)**
36,520	Cash and cash equivalents at the beginning of the reporting period		14,337
14,337	**Cash and cash equivalents at the end of the reporting period**		**10,710**

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 2015/16;
- 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 UK LLP 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 2015/16 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 2015/16 this was £27,878. 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 2015/16 was £20,909.

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 £146,087. 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 the remainder of this sum after the Provost remuneration equally and pay each of the 6 senior councillors a salary of £20,863.

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.

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.

Remuneration Report

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 an average salary pension scheme which means that pension benefits are based an average of the pay over 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 2015/16 remain at the 2014/15 rates, and are as follows:

Actual Pensionable Pay	Contribution rate (%)
On earnings up to and including £20,500	5.5%
On earnings above £20,500 and up to £25,000	7.25%
On earnings above £25,000 and up to £34,400	8.5%
On earnings above £34,400 and up to £45,800	9.5%
On earnings above £45,800	12%

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

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

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

Remuneration 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:

Non- Teaching Employees 2014/15	Teaching Employees 2014/15	Total Employees 2014/15	Remuneration Band	Non- Teaching Employees 2015/16	Teaching Employees 2015/16	Total Employees 2015/16
23	30	53	£50,000 - £54,999	24	32	56
11	5	16	£55,000 - £59,999	8	17	25
5	3	8	£60,000 - £64,999	2	3	5
2	2	4	£65,000 - £69,999	4	0	4
2	1	3	£70,000 - £74,999	3	4	7
4	1	5	£75,000 - £79,999	4	0	4
0	1	1	£80,000 - £84,999	0	0	0
0	0	0	£85,000 - £89,999	0	1	1
0	0	0	£90,000 - £94,999	0	0	0
3	0	3	£95,000 - £99,999	3	0	3
0	0	0	£100,000 - £104,999	0	0	0
0	0	0	£105,000 - £109,999	0	0	0
0	0	0	£110,000 - £114,999	0	0	0
1	0	1	£115,000 - £119,999	1	0	1
51	**43**	**94**	**TOTAL**	**49**	**57**	**106**

Remuneration Report

Exit Packages by Band

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 redundancy. They are charged on an accruals basis to Services in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to either terminating the employment of an officer or making an offer to encourage voluntary redundancy. The Council is only demonstrably committed to a termination when it has a detailed formal plan for the termination and it is without realistic possibility of withdrawal.

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 to 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.

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

Number of Employees 2014/15	Total Cost £000 2014/15	Package Band	Number of Employees 2015/16	Total Cost £000 2015/16
61	794	£0 - £19,999	15	190
102	2,929	£20,000 - £39,999	24	713
23	1,073	£40,000 - £59,999	5	220
12	834	£60,000 - £79,999	2	140
2	177	£80,000 +	1	94
200	**5,807**	**TOTAL**	**47**	**1,357**

Remuneration paid to Senior Employees

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

31 March 2015		31 March 2016			
Total Remuneration	**Name and Post Title**	**Salary, Fees & Allowances**	**Non Cash Benefits**	**Compensation for loss of employment**	**Total Remuneration**
£111,461	K Lawrie, Chief Executive	£112,887	-	-	£112,887
£4,889	K Lawrie, Returning Officer	£4,174	-	-	£4,174
£97,128	J Blair, Director Resources	£94,244	£4,287	-	£98,531
£48,449	E McHugh, Joint Director Health & Social Care (1)	£49,176	-	-	£49,176
£96,899	M Smith, Director Education, Communities and Economy	£98,353	-	-	£98,353
£75,306	G Fairley, Head of Finance & ISS	£72,791	£3,595	-	£76,386
£25,875	A Turpie, Legal Services Manager (2)	£50,888	£2,219	-	£53,107
£460,007	**Total**	**£482,513**	**£10,101**	**-**	**£492,614**

Remuneration Report

Pension Entitlement of Senior Employees

For year to 31 March 2015	In-year employers pension contributions Name and Post Title	For year to 31 March 2016
£22,274	K Lawrie, Chief Executive	£21,850
£1,022	K Lawrie, Returning Officer	£843
£19,406	J Blair, Director Resources	£19,037
£9,703	E McHugh, Joint Director Health & Social Care (1)	£9,519
£19,406	M Smith, Director Education, Communities and Economy	£19,037
£14,990	G Fairley, Head of Finance & Integrated Service Support	£14,704
£5,182	A Turpie, Legal Services Manager (2)	£10,279
£91,983	**Total**	**£95,269**

1 Post joint funded 50:50 with NHS Lothian. Full time equivalent salary £98,353.
2 A Turpie took over as Council Monitoring Officer in October 2014. 2014/15 full time equivalent salary £50,657.

Accrued Pension Benefits

Name and Post Title	Pension as at 31 March 2016 £000	Lump Sum as at 31 March 2016 £000	Difference from 31 March 2015 Pension £000	Lump Sum £000
K Lawrie, Chief Executive	34	61	4	0
J Blair, Director Corporate Resources	41	90	2	1
E McHugh, Joint Director Health & Social Care	41	89	3	2
M Smith, Director Education, Communities and Economy	25	42	2	0
G Fairley, Head of Finance & ISS	32	70	2	1
A Turpie, Legal Services Manager	20	43	1	2
Total	**193**	**395**	**14**	**6**

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 2015 Total Remuneration	Name	31 March 2016 Salary	Expenses	Total Remuneration
£27,849	O Thompson, Leader (1)	2,848	133	2,981
£20,989	C Johnstone, Senior Councillor/Leader (1)	26,280	497	26,777
£20,944	B Constable, Depute Leader	20,863	157	21,020
£22,284	J Wallace, Provost	20,909	276	21,185
£20,993	A Coventry, Depute Provost	20,863	210	21,073
£21,351	J Bryant, Senior Councillor	20,863	653	21,516
£21,177	D Rosie, Senior Councillor	20,863	456	21,319
-	K Parry, Senior Councillor (2)	10,981	-	10,981
£21,156	D Milligan, Opposition Leader	20,863	533	21,396
£176,743	**Total**	**£165,333**	**£2,915**	**£168,248**

The Council paid £0.333 million (2014/15 £0.335 million) salaries to Councillors and expenses of £0.005 million (2014/15 £0.007 million). The annual return of Councillor’s salaries and expenses is available on the Council Website.

Remuneration Report

Pension Entitlement of Senior Councillors

For year to 31 March 2015	In-year employers pension contributions Name	For year to 31 March 2016
£4,310	B Constable, Depute Leader	£4,214
£4,320	J Wallace, Provost	£4,224
£4,310	D Rosie, Senior Councillor	£4,214
£4,310	C Johnstone, Senior Councillor/Leader (1)	-
£4,310	A Coventry, Depute Provost	£4,214
-	K Parry, Senior Councillor (2)	£2,218
£21,560	**Total**	**£19,084**

1 O Thompson stood down as Council Leader on 8t[h] May 2015, being replaced by C Johnstone. Full time equivalent salary for the Council Leader £27,878.

2 K Parry was elected to Council and took up the post of Senior Councillor 11[th] September 2015. Full time equivalent salary £20,863

Accrued Pension Benefits as at 31 March 2016

Name and Post Title	Pension as at 31 March 2016	Lump Sum as at 31 March 2016	Difference from 31 March 2015 Pension	 Lump Sum
	£000	**£000**	**£000**	**£000**
B Constable, Depute Leader	3	1	1	0
J Wallace, Provost	2	0	1	0
D Rosie, Senior Councillor	2	0	1	0
C Johnstone, Senior Councillor	2	0	1	0
A Coventry, Depute Provost	1	0	0	0
K Parry, Senior Councillor	0	0	0	0
Total	**10**	**1**	**4**	**0**

Signed:

Catherine Johnstone, Leader of the Council **Kenneth Lawrie, Chief Executive**

20 September 2016

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.

1. Statement of Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2015-16 financial year and its position as at 31 March 2016. The Council is required to prepare an annual Statement of Accounts in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 also requires the Statement of Accounts to be prepared in accordance with proper accounting practices. These practices comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 (The Code) and the Service Reporting Code of Practice 2015-16 (SeRCOP), supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the Local Government in Scotland Act 2003.

Accounting Concepts and Principles

The accounting concepts followed in the application of accounting policies are:

- Accruals - sums due to or from the Council during the year are included, whether or not the cash has actually been received or paid in the year.
- Going concern - this assumes that the Council will continue in existence for the foreseeable future.

The accounting concepts are supported by qualitative characteristics prescribed by the International Accounting Standards Board's Conceptual Framework for Financial Reporting:

- Two fundamental characteristics (relevance and faithful representation); and
- Four enhancement characteristics, which complement the fundamental characteristics (comparable, verifiable, timely and understandable).

Faithful representation has three characteristics:

- Completeness - the financial statements should include all information necessary for a user to understand them, including all necessary descriptions and explanations.
- Neutrality - the financial statements should be without bias in the selection or presentation of financial information.
- Free from material error - there should be no errors or omissions in descriptions, or in the selection or application of the process used to produce the reported information.

1.2 Summary of Significant Accounting Policies

<u>1.2.1 Accruals of Income and Expenditure</u>
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;

- Revenue from Council Tax and Non Domestic Rates is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the Council, and the amount of revenue can be measured reliably. Revenue is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.

Notes to the Financial Statements

- 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 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

1.2.3 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.

1.2.4 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.

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;

Notes to the Financial Statements

- 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

1.2.5 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.

1.2.6 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 CIES 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 CIES 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.

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.

Notes to the Financial Statements

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.

1.2.7 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 the share of net assets.

1.2.8 Long Term Contracts

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.

1.2.9 Property, Plant and Equipment

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.

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 Council's Property Investment Manager. 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;

Notes to the Financial Statements

- Land and operational properties have been valued at current value, determined as the amount that would be paid for an asset in its existing use;
- 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 current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current 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 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 any unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss that has been 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 Revaluation Reserve or 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).

Notes to the Financial Statements

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, except where the useful life is known to be different from these as a consequence of a Council decision:

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

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.

Notes to the Financial Statements

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.

1.2.10 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 2016/17 Code:

CIPFA Code of Practice on Transport Infrastructure Assets

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015/16 financial statements.

CIPFA Code of Practice on Transport Infrastructure Assets will represent a change in accounting policy from 1 April 2016 and shall be accounted for retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. However, exceptionally, the 2016/17 Code will include an adaptation to IAS 1 for the transition for the move to measuring the Highways Network Asset at Depreciated Replacement Cost so that there is no requirement to restate the preceding year information or for an opening balance as at 1 April 2016. The change shall therefore be accounted for as an adjustment to opening balances as at 1 April 2016. This change to the Code will require the establishment of a separate asset, the Highways Network Asset; in accordance with the components classified in the Code of Practice on Transport Infrastructure Assets.

Overall these new or amended standards are not expected to have a significant impact on the annual accounts.

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.
- The Council’s only subsidiaries and associates are the Lothian Valuation Joint Board and Pacific Shelf 826 Limited. 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.

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.

The items in the Council's Balance Sheet as at 31 March 2016 for which there is significant risk of material adjustment in the forthcoming year are as follows:

Notes to the Financial Statements

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 £1.698 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

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:

	Approximate % increase to Employer Obligation	Approximate monetary amount £000
Sensitivities at 31 March 2016		
0.5% decrease in Real Discount Rate	10%	47,993
1 year increase in member life expectancy	3%	13,936
0.5% increase in the Salary Increase Rate	4%	16,701
0.5% increase in the Pension Increase Rate	7%	30,335

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.

During the preparation of the 2014/15 final accounts there has been a change in our presentation of capital accounting. As such the prior year comparative figures are not necessarily in the same format as the current year.

2014/15	**General Fund Reserve £000**	**HRA Balance £000**	**Capital Fund £000**	**Usable Capital Receipts Reserve £000**	**Total Useable Reserves £000**	**Movement in Unusable Reserves £000**
Adjustments Primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the CIES						
Charges for depreciation of non-current assets	(21,723)	(12,406)	0	0	**(34,129)**	**34,129**
Charges for impairment of non-current assets	0	0	0	0	**0**	**0**
Amortisation of intangible assets	(115)	0	0	0	**(115)**	**115**
Revaluation losses on PPE and assets held for sale	(3,037)	(31,112)	0	0	**(34,149)**	**34,149**
Amount of non-current assets written off on disposal or sale as part of gain/loss on disposal to the CIES	0	0	0	0	**0**	**0**
Net gain or loss on sale of non-current assets	(7,335)	508			**(6,827)**	**6,827**
Capital grants and contributions applied	0	0	0	0	**0**	**0**
Revenue expenditure funded from capital under statute	0	0	0	0	**0**	**0**
Statutory Provision for the financing of capital investment	5,234	2,868			**8,102**	**(8,102)**
Capital expenditure charged against the General Fund	0	0	0	0	**0**	**0**
Adjustments primarily involving the Capital Grant Unapplied Account						
Application of grants to capital financing transferred to the CAA	13,460	0	0	0	**13,460**	**(13,460)**
Adjustments primarily involving the Capital Fund						
Disposal of Fixed Assets / Capital Sales	0	0	0	(4,195)	**(4,195)**	**4,195**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	(4,195)	4,195	**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	7	0	0	0	**7**	**(7)**
Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the CIES	(17,265)	(554)	0	0	**(17,819)**	**17,819**
Employers Pension contributions and direct payments to pensioners payable in the year	11,894	0	0	0	**11,894**	**(11,894)**
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	(260)	0	0	0	**(260)**	**260**
Total Adjustments	**(19,140)**	**(40,696)**	**(4,195)**	**0**	**(64,031)**	**64,031**

Notes to the Financial Statements

2015/16	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Usable Capital Receipts Reserve £000	Total Useable Reserves £000	Movement in Unusable Reserves £000
Adjustments Primarily involving the Capital Adjustment Account						
Reversal of items debited or credited to the CIES						
Charges for depreciation of non-current assets	(25,444)	(6,737)	0	0	**(32,181)**	**32,181**
Charges for impairment of non-current assets	0	0	0	0	**0**	**0**
Amortisation of intangible assets	(115)	0	0	0	**(115)**	**115**
Revaluation losses on PPE and assets held for sale	3,050	(8,827)	0	0	**(5,777)**	**5,777**
Amount of non-current assets written off on disposal or sale as part of gain/loss on disposal to the CIES	0	0	0	0	**0**	**0**
Net gain or loss on sale of non-current assets	(1,103)	273	0	0	**(831)**	**831**
Capital grants and contributions applied	0	0	0	0	**0**	**0**
Revenue expenditure funded from capital under statute	0	0	0	0	**0**	**0**
Statutory Provision for the financing of capital investment	5,040	3,283	0	0	**8,323**	**(8,323)**
Capital expenditure charged against the General Fund	0	0	0	0	**0**	**0**
Adjustments primarily involving the Capital Grant Unapplied Account						
Application of grants to capital financing transferred to the CAA	22,627	0	0	0	**22,627**	**(22,627)**
Adjustments primarily involving the Capital Fund						
Disposal of Fixed Assets / Capital Sales	0	0	0	(525)	**(525)**	**525**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	(525)	525	**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	7	0	0	0	**7**	**(7)**
Adjustments primarily involving the pensions reserve						
Reversal of items relating to retirement benefits debited or credited to the CIES	(19,530)	(653)	0	0	**(20,183)**	**20,183**
Employers Pension contributions and direct payments to pensioners payable in the year	11,800	0	0	0	**11,800**	**(11,800)**
Adjustments primarily involving the Employee Statutory Adjustment Account						
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,917	0	0	0	**1,917**	**(1,917)**
Total Adjustments	**(1,751)**	**(12,661)**	**(525)**	**0**	**(14,937)**	**14,937**

Notes to the Financial Statements

6. Non-Distributable Costs

2014/15 £000		2015/16 £000
6,498	Pension Costs	5,630
6,498	**Total Non-distributable Costs**	**5,630**

7. Other Operating Income and Expenditure

2014/15 £000		2015/16 £000
6,826	(Surplus)/Deficit on sale of non current assets	831
6,826	**Total Other Operating Income and Expenditure**	**831**

8. Financing and Investment Income and Expenditure

2014/15 £000		2015/16 £000
13,630	Interest payable and similar charges	13,292
3,507	Pension interest cost and expected returns on pension assets	3,771
(1,017)	Interest received and similar income	(735)
0	Investment Losses	0
16,120	**Total**	**16,328**

9. Taxation and Specific Grant Income

2014/15 £000		2015/16 £000
34,430	Council Tax Income	35,364
29,308	Non Domestic Rates Income	32,821
123,352	Non-Specific Government Grants	123,420
187,090	**Total Taxation and Non-Specific Grant Income**	**191,605**

Notes to the Financial Statements

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

	Houses £000	Land £000	Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Under Construction £000	Surplus Assets £000	Total £000
Cost or Valuation as at 31 March 2014	**355,726**	**293,657**	**18,614**	**23,813**	**50,589**	**7,883**	**2,875**	**9,790**	**762,947**
Additions	7,276	2,535	108	3,073	4,249	0	5,908	0	23,149
Donations	0	0	0	0	0	0	0	0	0
Disposals	(1,880)	(1,328)	(456)	(1,535)	0	(40)	(299)		(5,538)
Reclassification	1,344	78	0	(125)	0	0	(1,297)	(400)	(400)
Impairment Losses	(2,194)	0	0	0	0	0	0	0	(2,194)
Impairment Reversal	0	0	0	0	0	0	0	0	0
Revaluation to I&E	(28,918)	(2,654)	(498)	0	0	(10)	0	0	(32,080)
Revaluation to Revaluation Reserve	(32,803)	(8,865)	(1,211)	0	0	60	0	0	(42,819)
Gross Book value at 31 March 2015	**298,551**	**283,423**	**16,557**	**25,226**	**54,838**	**7,893**	**7,187**	**9,390**	**703,065**
Depreciation as at 31 March 2014	**(40,272)**	**(33,684)**	**0**	**(15,121)**	**(24,959)**	**(199)**	**0**	**2**	**(114,233)**
Depreciation Charge for the Year	(12,311)	(16,031)	0	(2,425)	(3,312)	(51)	0	0	(34,130)
Disposals	369	280	0	1,413	0	0	0	0	2,062
Reclassification	(8)	8	0	0	0	0	0	0	0
Impairment Depreciation	0	0	0	0	0	0	0	0	0
Impairment Reversal Depreciation	0	0	0	0	0	0	0	0	0
Revaluation to I&E Depreciation	0	0	0	0	0	0	0	0	0
Revaluation to Revaluation Reserve Depreciation	31,990	22,511	0	0	0	29	0	0	54,530
Depreciation as at 31 March 2015	**(20,232)**	**(26,916)**	**0**	**(16,133)**	**(28,271)**	**(221)**	**0**	**2**	**(91,771)**
Net book value as at 31 March 2014	**315,454**	**259,979**	**18,613**	**8,693**	**25,629**	**7,683**	**2,871**	**9,790**	**648,712**
Net book value as at 31 March 2015	**278,319**	**256,507**	**16,557**	**9,093**	**26,567**	**7,672**	**7,187**	**9,392**	**611,294**

Notes to the Financial Statements

	Houses £000	Buildings £000	Land £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Under Construction £000	Surplus Assets £000	Total £000
Cost or Valuation as at 31 March 2015	**298,551**	**283,423**	**16,557**	**25,226**	**54,838**	**7,893**	**7,187**	**9,390**	**703,065**
Additions	6,084	3,104	0	2,896	4,017	0	15,352	21	31,474
Donations	0	0	0	0	0	0	0	0	0
Disposals	(1,792)	(1,282)	(558)	(1,099)	0	0	0	0	(4,731)
Reclassification	6,746	(704)	(1,285)	0	0	0	(6,392)	0	(1,635)
Impairment Losses	0	0	0	0	0	0	0	0	0
Impairment Reversal	0	0	0	0	0	0	0	0	0
Revaluation to I&E	(8,783)	4,001	(876)	0	0	0	0	(119)	(5,777)
Revaluation to Revaluation Reserve	8	17,988	1,436	0	0	(206)	0	(1,205)	18,021
Gross Book value at 31 March 2016	**300,814**	**306,530**	**15,274**	**27,023**	**58,855**	**7,687**	**16,147**	**8,087**	**740,417**
Depreciation as at 31 March 2015	**(20,232)**	**(26,916)**	**0**	**(16,133)**	**(28,271)**	**(221)**	**0**	**2**	**(91,771)**
Depreciation Charge for the Year	(6,643)	(19,805)	0	(2,602)	(3,077)	(55)	0	0	(32,182)
Disposals	222	313	0	998	0	0	0	0	1,533
Reclassification	0	0	0	0	0	0	0	0	0
Impairment Depreciation	0	0	0	0	0	0	0	0	0
Impairment Reversal Depreciation	0	0	0	0	0	0	0	0	0
Revaluation to I&E Depreciation	0	0	0	0	0	0	0	0	0
Revaluation to Revaluation Reserve Depreciation	0	22,907	0	0	0	0	0	0	22,907
Depreciation as at 31 March 2016	**(26,653)**	**(23,501)**	**0**	**(17,737)**	**(31,348)**	**(276)**	**0**	**2**	**(99,513)**
Net book value as at 31 March 2015	**278,319**	**256,507**	**16,557**	**9,093**	**26,567**	**7,672**	**7,187**	**9,392**	**611,294**
Net book value as at 31 March 2016	**274,161**	**283,029**	**15,274**	**9,286**	**27,507**	**7,411**	**16,147**	**8,089**	**640,904**

The Council carries out a rolling programme which ensures that the Property, Plant and Equipment required to be measured at current value, Council Dwellings, Land and Buildings and Surplus Assets, undergoes revaluation at least every five years. Professionally qualified valuers (RICS: Royal Institute of Chartered Surveyors) employed within the Council's Asset Management Team carry out valuations of all property-based assets held by the Council.

During 2015-16 the revaluation of primary school estate has resulted in an upward revaluation of £21.5 million. This is a result of changes in capacity within the schools.

There has also been £8.5 million additional spending on our school estate this year.

Notes to the Financial Statements

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.

Software licences are held for a number of systems operated by the Council which cost £1.429 million (2014/15 £1.116 million). This cost is being written off over 3 or 5 years depending on the life of the licence. A total of £0.987 million has been written off (2014/15 £0.872 million).

The Council is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. The Council is required to purchase allowances either prospectively or retrospectively, and surrender them on the basis of emissions. The Council currently holds £0.631 million of allowance as intangible assets (2014/15 £0.943 million), all of which were purchased as additions during 2014/15. £0.312 of the original allowances was surrendered in line with the scheme during the year.

2014/15 £000		**2015/16 £000**
977	**Gross carrying amount at start of year**	**2,059**
(757)	Accumulated amortisation	(872)
220	**Net carrying amount at the start of year**	**1,187**
1,082	Additions – purchased	313
0	Disposals	0
0	Surrender of CRC Allowance	(312)
(115)	Amortisation	(115)
1,187	**Net Book Value at Year End**	**1,073**

Notes to the Financial Statements

12. Movement in Assets Held for Sale

2014/15 £000		2015/16 £000
5,770	**Balance Outstanding as at 1 April**	**800**
400	Transfers from Non Current Assets during the year	1,635
0	Revaluations and Restatements	100
0	Impairments	0
0	Assets declassified as held for sale	0
(5,370)	Asset Disposal - Other	0
800	**Balance Outstanding as at 31 *M*arch**	**2,535**

All assets included above would come under the fair value hierarchy category of Level 2 – Fair Value measured using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

13. Heritage Assets

The Council's chain of office is the main heritage asset and has been included in the Balance Sheet at reinstatement cost, obtained from the Council's insurer. Heritage assets are valued at £0.027 million (2014/15 £0.026 million).

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

31 March 2015			31 March 2016	
Long Term £000	**Current £000**		**Long Term £000**	**Current £000**
		Financial Liabilities		
193,143	44,237	External Borrowings at amortised cost	198,917	41,073
56,180	1,120	PPP Liability (see Note 35)	54,972	1,208
0	8,062	Creditors	0	16,070
249,323	**53,419**	**Total Financial Liabilities**	**253,889**	**58,351**
		Financial Assets		
0	40,152	Loans and Receivables	0	55,007
3,032	0	Available-for-sale Financial Assets	3,032	0
0	14,337	Cash and Cash Equivalents (see Note 17)	0	10,710
0	6,825	Debtors	0	10,363
3,032	**61,314**	**Total Financial Assets**	**3,032**	**76,080**

Long Term borrowing as shown in the Balance Sheet of £198.917 million fully comprises principal to be repaid later than 12 months (PWLB Maturity Loans of £177.225 million, PWLB Annuity Loans of £0.739 million, LOBO Loans of £20.614 million and Salix Loans of £0.339 million). Lender Option Borrower Options (LOBO's) of £20.614 million 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 £41.073 million comprises accrued interest of £2.095 million, the LOBO Effective Interest Rate adjustment of £0.008 million and principal to be repaid within 12 months of £38.970 million (£36.880 million Temporary Loans; £2.000 million PWLB Maturities; £0.061 million Salix Loan, £0.029 million PWLB Annuities).

Gains and Losses on Financial Instruments

There were no gains on Available for Sale Financial Assets 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 2015/16 was £7.701 million [equating to £8.299 million interest paid on external borrowings less £0.598 million 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 2015/16 was £0.097 million.

Notes to the Financial Statements

Fair Value of Assets and Liabilities Carried at Amortised Cost
The fair value of each class of financial assets and liabilities which are carried in the balance sheet at amortised cost is disclosed below.

The fair value of an instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, 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 Capita, the Council's treasury management consultants, from the market on 31 March 2016.

The calculations are made with the following assumptions:

- 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.
- Interpolation techniques have been used between available rates where the exact maturity period was not available;
- The valuation of Loans Receivable is made by utilisation of the prevailing benchmark market rates;
- The valuation of fixed term deposits (maturity investments) is made by comparison of the fixed term investment with a comparable investment with the same/similar lender for the remaining period of the deposit;
- For PWLB debt, the discount rate used is:-
  a) the "Standard New Loan Rate (net of certainty rate discount) for new borrowing ["Fair Value (New Loan)" column of table below]; and
  b) the Premature Repayment Rate ["Fair Value (Premature Redemption)" column of table below]; as per rate sheet number 124/16 issued by PWLB on 31 March 2016;
- For other market debt the discount rate used is:-
  - the New market Loan Rate for an instrument with the same terms from a comparable lender ["Fair Value (New Loan)" column of table below]; and

the Premature Repayment Rate ["Fair Value (Premature Redemption)" column of table below]; as per rate sheet number 124/16 issued by PWLB on 31 March 2016;

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

31 March 2015			**31 March 2016**					
Carrying Amount	**Fair Value**	**Liability**	**Principal Outstanding**	**Add LOBO Accounting Adjustment**	**Add Accrued Interest**	**Carrying Amount**	**(a) Fair Value (New Loan)**	**(b)Fair Value (Premature Redemption**
£000	**£000**		**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
179,729	211,817	PWLB	179,992	0	1,812	181,804	215,897	249,548
20,903	26,169	LOBO	20,000	622	277	20,899	26,657	33,354
36,512	36,514	Short Term Borrowing	36,880	0	6	36,886	36,886	36,891
236	207	Salix	400	0	0	400	355	388
237,380	**247,707**	**Total**	**237,272**	**622**	**2,095**	**239,989**	**279,795**	**320,181**

Notes to the Financial Statements

Fair values of assets are calculated as:

31 March 2015			31 March 2016			
Carrying Amount	Fair Value	Investments	Principal Advanced	Add Accrued Interest	Carrying Amount	Fair Value
£000	**£000**		**£000**	**£000**	**£000**	**£000**
14,337	14,337	Cash and Cash Equivalents	10,697	13	10,710	10,710
40,152	40,223	Short Term Investments	54,985	22	55,007	55,049
54,489	**54,560**	**Total**	**65,282**	**35**	**65,717**	**65,759**

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 Nationalised and Part Nationalised 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 2016	Historical experience of default	Historical experience adjusted for market conditions as at 31 March 2016	Estimated maximum exposure to default and non collectable amounts
	£000	**%**	**%**	**£000**
Cash & Cash Equivalents & Short Term Investments	65,717	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 and short term investments is shown in the table below:-

Age Analysis

31 March 2015		31 March 2016
£000		**£000**
14,337	Less than 3 months	10,710
0	3 to 6 months	25,001
40,152	6 months to 1 year	30,006
0	More than 1 year	0
54,489	**Total**	**65,717**

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 2015 £000's		**31 March 2016 £000's**
41,526	Less than 1 year	38,970
2,029	1 to 2 years	10,093
28,502	2 to 5 years	27,096
10,801	5 to 10 years	2,798
52,214	10 to 20 years	51,632
4,100	20 to 30 years	4,100
60,700	30 to 40 years	60,700
29,834	40 to 50 years	36,883
5,000	Greater than 50 years	5,000
234,706	**Total**	**237,272**

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 effect 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. However, the Council has partially hedged against this risk for an element of its loan portfolio by entering into two forward starting loan transactions, where loans will be drawn at pre-defined future dates and where the interest rate was fixed at the point of execution of the loans in February 2016;
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet or the CIES 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 shown on the balance sheet 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 or CIES 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 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.

Notes to the Financial Statements

According to this assessment strategy, at 31 March 2016, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

Interest Rate Risk

	£000	£000
Increase in interest payable on variable rate borrowings	276	
Increase in interest receivable on variable rate instruments	(595)	
Increase in government grant receivable for financing costs	0	
Impact on CIES	**(319)**	
Share of overall impact credited to the HRA	**(193)**	
	A	**B**
Decrease in fair value of fixed rate investment assets (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income & Expenditure)	**(289)**	**(289)**
Decrease in fair value of fixed rate borrowing liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive income & Expenditure)	**(32,935)**	**(42,357)**

Note: Column A reflects the decrease in fair value of fixed rate investment assets & borrowing liabilities using the "New Loan" rate measurement of Fair Value. Column B reflects the decrease in fair value of fixed rate investment assets & borrowing liabilities using the "Premature Repayment" rate measurement of Fair Value.

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

Price Risk

The Council has a 5.5% shareholding in Lothian Buses which is available for sale to other company shareholders. The Council also have a 10% pin-point equity stake in the Newbattle DBFM Co. There is no price risk associated with either of these.

Foreign Exchange Risk

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

Notes to the Financial Statements

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) is calculated as net share of assets. In line with the published results of Lothian Buses this resulted in an increase in the value of the investment of £1.807 million, from £3.382 million in 2014/15 to £5.189 million in 2015/16.

The most recent published results of the company are as follows

Year to 31 December 2014 £000		Year to 31 December 2015 £000
140,441	Turnover	142,453
9,579	Profit before taxation	8,958
(1,783)	Taxation	(2,525)
7,796	Profit after taxation	6,433
5,494	Ordinary dividend	5,494
(19,653)	Transfer to / (from) reserves	33,045
61,825	**Net assets at end of year**	**94,870**

16. Debtors

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

Short Term Debtors

2014/15 £000	2014/15 £000		2015/16 £000	2015/16 £000
28,128		Council Tax and Community Charge	28,898	
(25,608)		Less: bad debt provision	(26,609)	
	2,520			2,289
	2,279	Central Government Bodies		2,539
	323	Other Local Authorities		1,296
	34	Public Corporations and Trading Funds		(7)
	0	NHS Bodies		0
21,821		Grants, External Debtor accounts and other Income due	18,034	
(6,319)		Less: bad debt provision	(5,859)	
	15,502			12,175
	20,658	**Net Debtors**		**18,292**

Long Term Debtors

2014/15 £000		2015/16 £000
3,073	Prepayment to PPP Contractor	3,607
-	Pacific Shelf	32
3,073	**Total Long Term Debtors**	**3,639**

Notes to the Financial Statements

17. 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.

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:

2014/15 £000		**2015/16 £000**
58	Cash and Bank Balances	53
15,914	Short Term Deposits Considered to be Cash Equivalents	13,368
(1,635)	Bank Overdraft	(2,711)
14,337	**Total Cash and Cash Equivalents**	**10,710**

18. Creditors

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

2014/15 £000		**2015/16 £000**
5,057	Payroll Costs Due	5,234
5,208	Accumulated Absences	3,291
610	Central Government Bodies	(255)
571	Other Local Authorities	368
4	Public Corporations and Trading Funds	4
(942)	NDR/Council Tax	(3,098)
14,959	Other Entities and Individuals	18,203
25,467	**Total Creditors**	**23,747**

19. 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.

Insurance

A provision for potential uninsured losses arising from claims is also made and this amounted to £1.640 million at 31 March 2016 (2014/15 £1.222 million) and is shown in other provisions.

Notes to the Financial Statements

20. Other Long Term Liabilities

2014/15 £000		2015/16 £000
115,549	Net Pension Liabilities	68,145
56,179	PPP Liabilities	54,971
171,728	**Total Long Term Liabilities**	**123,116**

21. Usable 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.

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

31st March 2015 £000		31st March 2016 £000
(21,315)	General Fund Reserve	(24,625)
(21,376)	HRA Balance	(24,913)
(14,853)	Capital Fund	(15,378)
(3,073)	Repairs and Renewals Fund	(3,607)
(60,617)	**Total Usable Reserves**	**(68,523)**

22. Unusable Reserves

31st March 2015 £000			31st March 2016 £000
(212,240)	22.1	Capital Adjustment Account	(216,420)
(89,266)	22.2	Revaluation Reserve	(117,635)
115,549	22.3	Pension Reserve	68,145
5,208	22.4	Employee Statutory Adjustment Account	3,291
2,876	22.5	Financial Instruments Adjustment Account	2,667
(3,032)	22.6	Available for Sale Financial Instruments Reserve	(4,839)
(180,905)		**Total Unusable Reserves**	**(264,791)**

22.1 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.

Notes to the Financial Statements

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

2014/15 £000		2015/16 £000
(257,588)	**Restated Balance at 1st April**	**(212,240)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
34,130	- Charges for Depreciation of non-current assets	32,182
34,274	- Charges for Downward Revaluation of non-current assets	5,777
115	- Amortisation of intangible assets	115
5,538	- PPE non-current assets written off on disposal or sale	4,731
(2,062)	- PPE depreciation written off on disposal or sale	(1,533)
5,370	- AHFS non-current assets written off on disposal or sale	0
(348)	- Adjusting amount written out to Revaluation reserve	(487)
(8,086)	- Accumulated gains on assets sold or scrapped	(12,170)
(188,657)	**Net written out amount of the cost of non-current assets consumed in year**	**(183,625)**
	Capital Financing for the year:	
(2,021)	- Use of Capital Receipts to finance new Capital expenditure	(1,843)
(13,460)	- Capital Grants and Contributions credited to the CIES	(22,627)
(8,102)	- Statutory Provision for the financing of capital investment	(8,325)
0	- Capital expenditure charged against the General Fund and HRA	0
0	- Application of grants to capital financing from the Capital Grants Unapplied Account	0
0	- Capital Grants and Contributions moved to the Capital Grants Unapplied Account	0
(212,240)	**Balance at 31st March**	**(216,420)**

22.2 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.

2014/15 £000		2015/16 £000
(85,991)	**Restated Balance at 1st April**	**(89,266)**
(11,612)	(Upward) / downward Revaluation of Assets	(40,937)
7,989	Downward revaluation of assets and impairment losses not charged to the Surplus / (Deficit) on the provision of services	12,080
348	Accumulated losses on assets sold	488
(89,266)	**Balance at 31st March**	**(117,635)**

22.3 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.

Notes to the Financial Statements

2014/15 £000		2015/16 £000
80,421	**Balance at 1st April**	**115,549**
	Return on Pension Assets	
29,203	Actuarial (gains) / losses arising on changes in financial assumptions	(55,787)
	Actuarial (gains) / losses arising from other experience	
17,819	Reversals of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the CIES	20,183
(11,894)	Employer's pension contributions	(11,800)
115,549	**Balance at 31st March**	**68,145**

22.4 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. The 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 was £1.917 million (2014/15 £0. 260 million)

2014/15 £000		2015/16 £000
4,948	**Balance at 1st April**	**5,208**
(4,948)	Settlement or cancellation of accrual made at end of preceding year	(5,208)
5,208	Amounts accrued at the end of the current year	3,291
5,208	**Balance at 31st March**	**3,291**

22.5 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.

2014/15 £000		2015/16 £000
3,082	**Balance at 1st April**	**2,876**
(7)	Proportion of equivalent interest rate calculation on lender option / borrower option loans	(7)
(199)	Change in share of equivalent interest rate calculation	(202)
2,876	**Balance at 31st March**	**2,667**

22.6 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

2014/15 £000		2015/16 £000
(4,107)	**Balance at 1st April**	**(3,032)**
	Upward revaluation of investments	(1,807)
1,075	Downward revaluation of investments not charged to Surplus/Deficit on the Provision of Service	
	Accumulated gains on assets sold and maturing assets written out to the CIES as part of Other Investment Income	
(3,032)	**Balance at 31st March**	**(4,839)**

Notes to the Financial Statements

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

2014/15 £000		2015/16 £000
(55,510)	**Net surplus or (deficit) on the provision of services**	**(7,032)**
	Adjustment to surplus or deficit on the provision of services for noncash movements	
34,130	Depreciation	32,181
34,176	Impairment & downward revaluations (& non-sale derecognitions)	5,688
115	Amortisation	115
247	Impairment losses on loans & advances debited to surplus or deficit on the provision of services in year	
	Reduction in Fair Value of non PWLB Concessionary Loans	(202)
323	Adjustment for internal interest charged	451
194	(Increase)/Decrease in Inventories	161
1,589	(Increase)/Decrease in Debtors	(393)
(170)	(Increase)/Decrease in Interest and Dividend Debtors	305
0	Adjustment for effective interest rates	(7)
(2,446)	Increase/(Decrease) in Creditors	(3,904)
(82)	Increase/(Decrease) in Interest Creditors	50
5,925	Movement in Pension Liability	8,383
8,846	Carrying amount of non-current assets sold	3,198
621	Contributions to Other Reserves/Provisions	(110)
0	Carrying amount of short and long term investments sold	
(407)	Other non-cash movements and transfers to investing activities	(244)
83,061		**45,672**
	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)	40,000
(2,020)	Proceeds from the sale of PP&E, investment property and intangible assets	(2,368)
(13,460)	Capital grants included in "Taxation & non-specific grant income”	(22,627)
0	Premiums or discounts on the repayment of financial liabilities	0
(15,480)		**15,005**
12,071	**Net Cash Flows from Operating Activities**	**53,645**
	Operating activities within the cash flow statement include the following cash flows relating to interest	
224	Interest Received	779
(13,130)	Interest Paid	(14,258)
300	Dividends Received	300
(12,606)		**(13,179)**

24. Net Cash Flows from Investing Activities

2014/15 £000		2015/16 £000
(24,753)	Purchase of PP&E, investment property and intangible assets	(31,018)
(40,000)	Purchase of Short Term Investments (not considered to be cash equivalents)	(54,985)
3,901	Proceeds from the sale of PP&E, investment property and intangible assets	3,573
0	Proceeds from Short Term Investments (not considered to be cash equivalents)	0
19,050	Other Receipts from Investing Activities	23,713
(41,802)	**Net Cash flows from Investing Activities**	**(58,717)**

Notes to the Financial Statements

25. Net Cash Flows from Financing Activities

2014/15 £000		2015/16 £000
183,754	Cash Receipts from Short and Long Term Borrowing	220,269
(1,040)	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(1,121)
(175,042)	Repayment of Short and Long Term Borrowing	(217,703)
7,672	**Net Cash flows from Financing Activities**	**1,445**

26. 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.

Expenditure £000	Income £000	2014/15 Net Expenditure £000	Service Area	Expenditure £000	Income £000	2015/16 Net Expenditure £000
15,026	162	14,864	Childrens Services	15,650	92	15,558
5,888	2,542	3,346	Communities and Economy	6,364	2,129	4,235
76,551	1,897	74,654	Education	78,809	1,852	76,957
48,835	13,344	35,491	Adult Social Care	51,679	14,445	37,234
43,980	31,367	12,613	Customer and Housing Services	43,838	31,438	12,400
17,678	1,829	15,849	Commercial Services	17,126	1,822	15,304
13,141	381	12,760	Finance and Integrated Service Support	12,546	241	12,305
21,394	8,482	12,912	Properties and Facilities Management	20,488	7,322	13,166
556	0	556	Joint Boards	560	0	560
7,502	0	7,502	Loan Charges	7,077	0	7,077
0	300	(300)	Investment Income	0	300	(300)
1,298	60	1,238	Other Expenditure	(1,171)	64	(1,235)
251,849	**60,364**	**191,485**	**Total Expenditure**	**252,966**	**59,705**	**193,261**
		39,558	Council Tax Income			40,251
		152,731	Scottish Government Grant			156,320
		(804)	**General Fund Services**			**(3,310)**

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.

2014/15 £000		2015/16 £000
(804)	Net Expenditure per Council functional analysis	(3,310)
(3,002)	HRA Outturn	(3,537)
(3,806)	**Total Net Expenditure**	**(6,847)**
	Net Expenditure of services not included in CIES	
(7,062)	Loans fund Principal repayments	(7,203)
(1,040)	Statutory Provision for the repayment of Debt	(1,121)
(520)	Repairs and Renewals	(534)
	Amounts in the CIES not reported to Management	
68,394	Depreciation, Impairment and Amortisation	38,075
6,826	Surplus / (losses) on sale of fixed assets	831
(7)	Financing Costs	(7)
5,925	Pensions Interest Costs	8,383
260	Short Term Accumulated Absences	(1917)
(13,460)	Government Grants and Contributions	(22,628)
55,510	**(Surplus) or Deficit on Provision of Services**	**(7,032)**

27. Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice is £0.242 million (2014/15 £0.239 million). There were no other fees payable in respect of any other services provided by the appointed auditor.

28. Devolved School Management

The net amount of balances to be carried forward for schools under the scheme is £1.020 million (2014/15 £1.008 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

29. Grant Income Credited to Services

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.

Notes to the Financial Statements

The Council credited the following grants to the CIES:

2014/15 £000		2015/16 £000
26,384	Housing / Rent Benefit Subsidy	26,624
6,058	Lothian Health Board / Resource Transfer	7,771
1,016	Criminal Justice	995
447	Housing Benefit Administration	457
394	Employability Initiatives	328
195	Conservation Area Regeneration Scheme	206
287	Private Sector Housing Grant	293
261	Active Schools / Sports Scotland	326
270	Contaminated Land	44
142	Youth Music Initiative	164
127	Opportunities for All	101
271	Business Gateway	172
0	Smarter Choices Smarter Place	122
1,130	Other Grants and Contributions	1,175
36,982	**Total Grants and Contributions**	**38,778**

30. 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:

2014/15 £000		2015/16 £000
12,153	**Balance at 1April**	**18,049**
6,325	New capital grants received in advance, conditions of use not met	6,596
(429)	Amounts released to CIES, conditions of use met	(8,250)
18,049	**Balance at 31 March**	**16,395**

31. Related Parties

The Scottish Government

The Scottish Government has significant influence over the general operations of the Council, being responsible for providing the statutory framework within which the Council operates. The Scottish Government also provides the majority of the Council’s funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (such as Council Tax bills and Housing Benefits). Grants received from the Scottish Government are set out in Note 26 on amounts reported to decision makers.

Officers

There are no related party transactions with Officers of the Council.

Elected Members

Elected members of the Council have direct control over the Council’s financial and operating policies. The total of members’ allowances paid in 2015-16 is shown in the Remuneration Report. There are no other related party transactions with members of the Council.

Notes to the Financial Statements

Entities Controlled or Significantly Influenced by the Council

During the year the Council entered into material transactions with the Lothian Valuation Board. This amounted £0.560 million (2014/15 £0.556 million).

Midlothian Integration Joint Board

Midlothian Integration Joint Board was established on 20 August 2015. The Council provides assistance in kind in terms of Board staff (Chief Officer) and administrative support for the operation of the Board. Delegation of resources by the Council to the Board is with effect from 1 April 2016.

32. 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.

2014/15 £000	2014/15 £000		2015/16 £000	2015/16 £000
	311,503	**Opening Capital Financing Requirement**		**311,209**
		Capital Expenditure		
23,149		Property, Plant and Equipment	31,475	
139		Intangible Assets	314	
		Capital Receipts transferred to Capital Fund	524	
	23,288			**32,313**
		Capital Financing		
(2,021)		Capital Receipts	(2,367)	
(10,860)		Government Grants	(12,701)	
(2,600)		Contribution from Other Bodies	(9,926)	
(8,101)		Loans Fund and Lease Repayments	(8,324)	
	(23,582)			**(33,318)**
	311,209	**Closing Capital Financing Requirement**		**310,204**
	(294)	**Increase in Capital Financing Requirement**		**(1,005)**

33. Commitments under Capital Contracts

As at 31 March 2016, the Council was contractually committed to capital works which amounted to £17,194 million (31 March 2015 equivalent £6.630 million).

The value of work completed as at 31 March 2016 has been established using a stage of completion methodology based on Contract Administrator's Certificates obtained at year end.

The main capital contracts the Council is committed to are as follows:-

1. The new Gorebridge North primary school. £8.502 million original contractual commitment; £4.845 million remaining commitment outstanding;
2. The new Bilston primary school. £6.618 million original contractual commitment; £3.609 million remaining commitment outstanding;
3. HRA Phase II Housing: Site 51a, Stobhill Road, Gorebridge. £4.644 million original contractual commitment; £3.602 million remaining commitment outstanding;
4. Complex Care: Penicuik: £2.000 million original contractual commitment; £1.929 million remaining commitment outstanding;

The total value of retentions held as at 31 March 2016 amount to £0.475 million

Notes to the Financial Statements

34. 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, these elements are considered separately for classification.

Assets acquired by the Council under finance leases are shown in the Balance Sheet together with a liability to pay outstanding rentals. Rental payments are apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease.

Rental payments made by the Council under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease.

Where the Council grants an operating lease to a lessee over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Comprehensive Income and Expenditure Statement with credits being made on a straight-line basis over the life of the lease.

Finance

The Council currently holds no finance leases other than the PPP schemes outlined in Note 35.

Operating

The Council uses assets financed under the terms of an operating lease. The amount charged to revenue for the year was £0.660 million (2014/15 £0.646 million). This all related to Vehicles, Plant and Equipment. Future cash payments under these leases within 1 year is £0.454 million (2014/15 £0.407 million) and within 2 to 5 years is £0.253 million (2014/15 £0.202 million).

35. Public Private Partnership

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.

Notes to the Financial Statements

The Council has entered into four 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 contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with one contract month's notice.

- 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. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 6 months notice.

- The third is for the provision and lifecycle maintenance of the Newbattle Centre and is a 25 year contract with hubCo. The contract is currently in the construction phase with an anticipated opening date of 31 March 2018. When the agreement ends in 2043 the facilities will transfer to the Council in a useable condition as defined by the contract. The contractor does not have any right of renewal on contract expiry. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with variable notice periods as defined in the contract.

- The fourth is for the provision of a food waste treatment plant at Millerhill, jointly procured between Midlothian and the City of Edinburgh Council. As at 31 March 2016 the plant was unable to accept the authorities waste due to health & safety issues. The contract is for 20 years and at the end of the concession period in 2036, the asset will not revert back to the partner Councils and will remain under the full control of the DBFO operator, who has the option to continue to operate the asset from year 20 through to year 40, paying a market rent for the lease of the land over this period. At the end of the 40th year, the asset will be decommissioned and the decommissioned site shall be transferred back to the ownership of the Councils. Termination of contract is either at contract end date or following the issue of a contractor default notice or voluntary termination with 40 days notice.

The assets used to provide the services at the Dalkeith Schools Community Campus and the Primary Schools PPP 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 2016 is £65.369 million (2014/15 £58.491million). The movement is depreciation of £1.167 million (2014/15 £1.167 million). There is a deferred liability at 31 March 2016 for the financing of these assets of £56.180 million (2014/15 £57.300 million). Details of payments to be made under PFI arrangements are:

During the year a total of £1.121 million (2014/15 £1.040 million) was paid in relation to finance lease liabilities under the PFI contracts.

	Dalkeith Campus				**Primary Schools**			
Period	**Liability £000**	**Interest £000**	**Service Charge £000**	**Total £000**	**Liability £000**	**Interest £000**	**Service Charge £000**	**Total £000**
Within 1 year	555	2,497	1,869	4,921	653	2,315	1,859	4,827
Within 2 to 5 years	2,848	9,359	7,956	20,163	3,126	8,748	7,911	19,785
Within 6 to 10 years	5,535	9,724	11,116	26,375	5,373	9,469	11,053	25,896
Within 11 to 15 years	9,003	6,256	12,577	27,836	7,640	7,202	12,506	27,348
Within 16 to 20 years	6,495	1,234	6,997	14,726	10,863	3,979	14,149	28,992
Within 21 to 25 years	0	0	0	0	4,089	402	4,649	9,140
Total Contract	**24,437**	**29,070**	**40,515**	**94,022**	**31,743**	**32,116**	**52,128**	**115,987**

Notes to the Financial Statements

36. 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 2015/16 the Council paid £5.457 million (2014/15 £4.896 million) to the Scottish Government in respect of teachers' pension costs. The rate of contribution was 17.2% (2014/15 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 2015/16 the Council paid an employer contribution of £11.800 million (2014/15 £11.894 million) into the Lothian Pension Fund, representing 22.9% (2014/15 24.9%) 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 2017 will be £10.731 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:

CIES

2014/15 £000		**2015/16 £000**
	Net cost of services:	
13,802	Current Service Cost	16,204
510	Past Service Costs (including curtailments)	208
	Net operating expenditure:	
17,458	Interest cost	15,865
(13,951)	Expected return on scheme assets	(12,094)
17,819	**Net charge to CIES**	**20,183**
	Adjustment between accounting basis & funding basis under regulation	
(17,819)	Reversal of net charges made for retirement benefits in accordance with IAS 19	(20,183)
11,894	Employers contributions payable to pension fund	11,800

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

In addition to the recognised gains and losses included in the CIES, actuarial gains of £55.787 million (2014/15 loss of £29.203 million) were included in other comprehensive income and expenditure in the CIES.

Notes to the Financial Statements

Assets and Liabilities in relation to retirement benefits

2014/15 £000	Reconciliation of present value of the scheme liabilities:	2015/16 £000
404,226	Opening Balance	493,662
13,802	Current Service Costs	16,204
17,458	Interest Cost	15,865
3,032	Contribution by Members	3,109
67,814	Actuarial losses/(gains)	(49,226)
510	Past Service Costs (including curtailments)	208
(925)	Estimated Unfunded Benefits Paid	(888)
(12,255)	Estimated Benefits Paid	(14,390)
493,662	**Balance at 31 March**	**464,544**

2014/15 £000	Reconciliation of fair value of the scheme assets:	2015/16 £000
323,804	Opening Balance	378,112
13,951	Expected return on Assets	12,094
3,032	Contributions by Members	3,109
10,969	Contributions by the Employer	10,912
925	Contribution in respect of unfunded benefits	888
38,611	Actuarial gains	6,561
(925)	Unfunded Benefits paid	(888)
(12,255)	Benefits paid	(14,390)
378,112	**Balance at 31 March**	**396,398**

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

	2015/16 £000	2014/15 £000	2013/14 £000	2012/13 £000	2011/12 £000
Present value of liabilities	(464,544)	(493,662)	(404,226)	(369,730)	(317,109)
Fair Value of Assets	396,398	378,112	323,804	303,858	262,096
Surplus/(deficit)	**(68,146)**	**(115,550)**	**(80,422)**	**(65,872)**	**(55,013)**

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £464.544 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £68.145 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 2014, the funding level was 93% 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 2015/16 was 348% 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 2016.

Notes to the Financial Statements

The main assumptions used by the actuary have been:

2014/15		2015/16
	Longevity at 65 for current pensions (Mortality):	
22.1	Men (years)	22.1
23.7	Woman (years)	23.7
	Longevity at 65 for future pensions (Mortality):	
24.2	Men (years)	24.2
26.3	Woman (years)	26.3
2.4%	Inflation / Pension Increase Rate	2.2%
4.3%	Salary Increase Rate	4.2%
3.2%	Discount Rate	3.5%
50%	Take up of options to convert Annual Pension into Retirement Lump Sum – Services to April 2009	50%
75%	Retirement Lump Sum - Services post April 2009	75%

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

31/03/2015		31/03/2016
61%	Equity Securities	62%
8%	Debt Securities	9%
12%	Private Equity	4%
8%	Real Estate	9%
3%	Investment Funds and Unit Trusts	10%
8%	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.

37. Contingent Liability

The Borders Railway opened to the public on Sunday 6th September 2015 running from Tweedbank in the Scottish Borders through Midlothian to Waverley Station in Edinburgh. There are four stations in Midlothian at Gorebridge, Newtongrange, Eskbank and Shawfair. Midlothian’s contribution to the project is capped at £11.673 million, of which £3.209 million is an in-kind contribution and £8.464 million (at 2012 prices and subject to BCIS inflation) is payable to the Scottish Government in planned instalments over the coming years. This contribution is anticipated to be fully funded from section 75 agreements with Housing Developers however any circumstances arising that prevented full collection of contributions may give rise to a liability.

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

There are some 18 active trusts, bequests and community funds of varying size managed by the Council, each of which has specific objectives and conditions. None of the funds are currently registered charities.

The main funds are:

31/03/2015		31/03/2016
£000		**£000**
15	Dalkeith Common Good	14
2	Penicuik Common Good	2
133	Community Mining Funds	134
77	Other Funds	67
227	**Total**	**217**

A total of £0.121 million has been committed to be spent from these funds.

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.

Notes to the Financial Statements

39. Other 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 2015/16.

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 2015/16 was zero with a loss of £0.003 million being made. The company held net liabilities of £0.553 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 2015/16 £0.560 million was the Council’s contribution towards expenditure on the Lothian Valuation Joint Board, representing a 9.15% share of the total. The Board presented a deficit on the provision of services of £0.624 million and held net liabilities of £5.008 million. All reserves were unusable.

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

40. Post Balance Sheet Events

There are no post balance sheet events.

Housing Revenue Account Income and Expenditure Account

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.

For the year ended 31 March 2016

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

2014/15		**2015/16**	**per house per week**
£000		**£000**	**£**
	Income		
22,089	Gross dwelling rents	23,271	65.48
487	Non dwelling rents	517	1.45
2,393	Other Income	3,942	11.09
24,969		**27,730**	**78.02**
	Expenditure		
5,291	Repairs and Maintenance	5,104	14.36
4,818	Supervision and Management	4,892	13.76
12,406	Depreciation of Non-Current Assets	6,737	18.96
31,111	Impairment of Non-Current Assets	8,826	24.83
1,896	Other Expenditure	2,061	5.80
175	Increase / (Decrease) in Bad Debt Provision	240	0.68
55,697		**27,860**	**78.39**
30,728	**Net Cost of HRA services per the whole Council Comprehensive Income and Expenditure Account**	**130**	**0.37**
250	HRA share of Corporate and Democratic Core	250	0.70
30,978	**Net Cost of HRA Services**	**380**	**1.07**
	HRA share of the operating income and expenditure included in the whole Council accounts		
(509)	Loss / (Gain) on sale of HRA fixed assets	(273)	(0.77)
4,815	Interest Payable and similar charges	5,041	14.18
(147)	Interest and Investment Income	(184)	(0.52)
2,314	Capital Grants Unapplied	3,898	10.97
243	Net Defined Benefit Liability and Expected Return on Pension Asset	262	0.74
37,694	**Deficit / (Surplus) for the year on the HRA Services**	**9,124**	**25.67**

Movement on the HRA Statement for year ended 31 March 2016

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.

2014/15		**2015/16**	**per house**
£000		**£000**	**per week**
£000	Deficit for the year on the HRA Income & Expenditure Account		
37,694	**Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year**	**9,124**	**25.67**
509	Gain/(loss) on sale of HRA fixed assets	273	0.77
(40,652)	Transfer to/(from) Capital Adjustment Account	(12,280)	(34.55)
(553)	HRA share of contributions to/from pension reserve	(653)	(1.84)
(3,002)	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**(3,536)**	**(9.95)**
(18,374)	Housing Revenue Account Balance brought forward	**(21,376)**	**(60.14)**
(21,376)	**Housing Revenue Account Balance carried forward**	**(24,913)**	**(70.09)**

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 2016 the Council had 6,835 houses (31 March 2015 6,835) which can be analysed as follows:

2014/15	**Type of Dwelling**	**2015/16**
Number		Number
805	1 Bedroom	822
3,815	2 Bedroom	3,814
1,879	3 Bedroom	1,865
327	4 Bedroom	324
9	5 / 6 Bedroom	10
6,835	Total	**6,835**

3. Rent Arrears
At the end of the year rent arrears amounted to £2.572 million (2014/15 £2.504 million) for which a provision for bad and doubtful debts of £0.940 million (2014/15 £0.700 million) exists.

4. Void Properties
The total value of uncollectable void rents for main provision properties amounted to £0.521 million (2014/15 £0.354 million).This has been netted against rental income.

Council Tax Income Account

For the year ended 31 March 2016

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).

2014/15 £000		**2015/16 £000**
45,707	Gross Council Tax levied and Contributions in Lieu	46,513
	Less :	
4,975	Discounts	4,988
5,127	Council Tax Reduction Scheme	4,888
1,216	Write-off of Uncollectable Debts and Allowances for Impairment	1,239
34,389		**35,398**
41	Adjustments to previous years Community Charge and Council Tax	(34)
34,430	**Transfers to the General Fund**	**35,364**

Notes to the Council Tax Income Account

1. Calculation of the Council tax base for the year 2015/16.

	Property Bands								
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Properties	982	12,454	10,660	5,057	4,668	3,044	1,939	165	38,969
Disabled relief	39	13	(24)	1	(13)	1	(17)	0	0
Less									
Exemptions	64	402	242	92	208	41	22	4	1,075
Discounts (25%)	145	1,431	891	346	225	93	52	3	3,186
Discounts (50%)	2	5	5	1	2	2	2	0	19
Other Discounts	5	27	20	12	7	10	0	0	81
Council Tax Reduction Scheme	256	2,683	1,498	285	113	43	21	0	4,899
Effective properties	549	7,919	7,980	4,322	4,100	2,856	1,825	158	29,709
Ratio to band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D equivalents	366	6159	7,094	4,322	5,011	4,126	3,041	315	30,434
Contributions in lieu – Band D equivalents									202
Total Council Tax Base									**30,636**
Provision for non payment									(919)
Total									**29,717**

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

Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Numbers	549	7,919	7,980	4,322	4,100	2,856	1,825	158	29,709
£	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 2016

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.

2014/15 £000		2015/16 £000
38,172	Gross rates levied	37,494
	Less:	
8,122	Reliefs and other deductions	8,169
0	Interest paid	0
811	Write-offs of uncollectable debts and allowance for impairment	464
1,165	Adjustments to previous years	3,411
28,074	**Net Non Domestic Rate Income**	**25,450**
(366)	Non-Domestic Rate Income Retained by Authority (BRIS)	0
27,708	**Contribution to Non-Domestic Rate Pool**	**25,450**
	Allocated:	
27,708	Contribution to national non-domestic rates pool	25,529
(71)	Midlothian Council	(79)
27,637		**25,450**

Notes

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £9.468 million (2014/15 £29.013 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 48p per £ (2014/15 47.1p per £) where the rateable value was less than or equal to £35,000 and 49.3p per £ (2014/15 48.2 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 2014/15	Rateable Value 2014/15 £000		Number 2015/16	Rateable Value 2015/16 £000
1,671	44,743	Shops, Offices and Other Commercial Subjects	1,693	44,984
884	14,800	Industrial and Freight Transport	900	14,720
295	18,993	Miscellaneous (Schools etc)	292	16,956
2,850	**78,536**		**2,885**	**76,660**

5. The Business Rate Incentivisation Scheme (BRIS) permits the authority to retain half of the NDR income which exceeds the income target set by the Scottish Government.

Independent Auditor's Report

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

We certify that we have audited the financial statements of Midlothian Council for the year ended 31 March 2016 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, Council Tax Income Account, Non-Domestic Rates Income 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 2015/16 (the 2015/16 Code).

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

Respective responsibilities of the Head of Finance and Integrated Service Support and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance and Integrated Service Support 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 circumstances of the council and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Integrated Service Support ; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Management Commentary 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 2015/16 Code of the state of the affairs of the council and its group as at 31 March 2016 and of the income and expenditure of the council 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 2015/16 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, 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 2014; and
- the information given in the Management Commentary 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 has not been prepared in accordance 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.

Paul Dossett, (for and on behalf of Grant Thornton UK LLP)
7 Exchange Crescent
Edinburgh
EH3 8AN
20 September 2016

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.

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.