Midlothian

Midlothian Council
Audited
Financial Statements
2010/11

Financial Statement 2010/11
Contents

Explanatory Foreword by the Head of Finance and Human Resources

Introduction

The Financial Statements present the financial performance of the Council for the year to 31 March 2011. They also include Group Financial Statements which include Council's interests in material subsidiaries and associates.

The Financial Statements follow approved accounting standards and are necessarily technical in parts. The purpose of this foreword is to briefly explain the principal items of interest or note within the Statements.

Adoption of International Financial Reporting Standards (IFRS)

The Financial Statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) based Code of Practice in the United Kingdom (The Code). Previous Financial Statements were prepared based on the Code of Practice on Local Authority Accounting: A Statement of Recommended Practice (SORP). The Chancellor's 2007 Budget announcement introduced IFRS based financial reporting for government and public sector accounting from 2008/09. The 2008 Budget Report required Local Authorities to adopt IFRS from 1 April 2010. The Financial Statements also include IFRS based comparative figures for 2009/10. The main reason for adopting IFRS is to bring benefits in consistency and comparability between financial reports in the global economy and to follow private sector best practice.

The Code requires a number of presentational changes to the primary Financial Statements as follows:

Movement in Reserves Statement

This is a new statement, which 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 unusable reserves.

Comprehensive Income and Expenditure Statement

This is a new statement which shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from Government Grant and Council Tax.

Balance Sheet

The only difference in this statement to the one produced under the SORP is in relation to the format of the Balance Sheet.

Cash Flow Statement

There are only some minor format changes to the Cash Flow Statement under IFRS.

Financial Statements

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

Statement of Responsibilities for the Financial Statements

This sets out the respective responsibilities of the Council and the Head of Finance and Human Resources (Chief Finance Officer).

Annual Governance Statement

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

Explanatory Foreword by the Head of Finance and Human Resources

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

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

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

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

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

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

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

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

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

Explanatory Foreword by the Head of Finance and Human Resources

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

- Group Movement in Reserves Statement;
- Group Comprehensive Income and Expenditure Statement;
- Group Balance Sheet;
- Group Cash Flow Statement.

Trust Funds and Common Goods Funds have been consolidated in the group together with Pacific Shelf 826 Ltd which is a wholly owned subsidiary. Lothian and Borders Police Board, Lothian and Borders Fire and Rescue Board and Lothian Valuation Joint Board are also consolidated and are considered associates.

Financial Performance
The review of financial performance is based on management accounting information reported to Council, rather than the audited Financial Statements which are presented on an IFRS basis.

For the year ended 31 March 2011 services underspent against the revised budget by £3.551 million. Full details of the reasons for this underspend are set out in the Final Outturn reported to Council on 28th June 2011 which is available on the Council website.

The General Fund Reserve at the start of the year was a surplus of £9.196 million and it was expected that this would be reduced by £0.460 million in the year. The actual position is a reserve of £12.288 million of which £6.414 million has been earmarked for specific purposes leaving £5.874 million as a contingency.

In 2009/10 the Scottish Government granted the council consent to borrow to fund equal pay costs. In 2010/11 £1.112 million was capitalised thus increased the General Fund reserve. At 31 March 2011 the Balance Sheet includes a provision of £3.748 million for outstanding equal pay claims.

Housing Revenue Account
When the HRA budget for the year was set it was anticipated that the income from rents would fund all revenue expenditure and enhance reserves at the end of the year to £10.315 million. In the event variations in income and expenditure resulted in a reserve at 31 March 2011 of £11.680 million.

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

- Building Maintenance Services;
- Roads Maintenance Serves.

Building Maintenance Services and Roads Maintenance Services both met their statutory objective. More details are provided in Note 27 to the Financial Statements.

Explanatory Foreword by the Head of Finance and Human Resources

Capital
The Local Government in Scotland Act 2003 requires that the Council must determine and keep under review how much it can afford to spend on capital projects. In 2010/11 capital expenditure totalled £33.923 million. The most significant capital project was the building of Council houses totalling £17.265 million.

The main sources of funding used for investing in council assets was the realisation of capital receipts of £2.418 million, grants of £6.649 million, developer and other contributions of £0.832 million and borrowing of £24.024 million. A full analysis of capital income and expenditure is provided in note 34 to the Financial Statements.

Long-term Borrowing
The Council borrowed money throughout the year to meet anticipated capital expenditure requirements and to refinance maturing loans after allowing for debt repayments. At 31 March 2011 external borrowing amounted to £141.252 million. The borrowing strategy is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the Public Works Loans Board. Further details are provided in note 12 to the Financial Statements.

Net Pension Liability
The net pension liability of the Group as at 31 March 2011 was calculated in accordance with the requirements of International Accounting Standard 19 (IAS 19) and amounts to £207.676 million. This comprises £63.802 million in respect of the Council and £143.894 million for group entities. This is a reduction of £61.680 million from the Balance Sheet at 31 March 2010. This is mainly due to future pension increases now being linked to the Consumer Prices Index (CPI) and not the Retail Prices Index (RPI). This change was announced to the Chancellor's budget statement on 22 June 2010. The effect of this change is that a negative past service cost of £34.409 million has been credited to the revenue account in the financial year.

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

It should be noted this is a snapshop of the position at 31 March 2011. 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.

Current Economic Climate
The current economic climate impacts on the Council and the services it provides in a number of ways. From a financial perspective 2010/11 saw a reduction in income from planning applications and building warrants, reflecting the continued depressed state of private housing sector development.

In addition the UK Government's Comprehensive Spending Review in 2010 and the subsequent Scottish Government Budget and grant settlement necessitate a reduction in net expenditure of approximately £5 million in 2011/12. This was achieved through the Council's Business Transformation Programme with minimal impact on front line service delivery.

Explanatory Foreword by the Head of Finance and Human Resources

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

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

Gary Fairley
Head of Finance and Human Resources

29 September 2011

Statement of Responsibilities for the Financial Statements

The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this council, that officer is the Head of Finance and Human Resources;
- 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 Human Resources' Responsibilities

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

In preparing this statement of accounts, the Head of Finance and Human Resources 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 Human Resources 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 2011 and its income and expenditure for the year then ended.

Signed:

Gary Fairley
Head of Finance and Human Resources
29 September 2011

Annual Governance Statement

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

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

Financial Governance

- Internal Control Environment;
- Independent Internal Audit;
- Annual Assurance Statement on Internal Control;
- Standing Order 20 on contracts and procurement policies and procedures;
- Financial Management Policies, Strategies and Budgetary Control;
- Control of Financial Risk;
- Counter Fraud and Corruption Policy;
- Audit Committee Scrutiny;
- External Audit Reports on Financial Management, Governance and Systems;
- Statutory role of the Council's s95 Officer (Head of Finance and Human Resources) in financial stewardship.

Non Financial Governance

- Standards in Public Life and Statutory role of Monitoring Officer;
- Leadership and Change Management;
- Policies and Strategies;
- Compliance with and preparation for new legislation;
- Control of Risk and Opportunity in corporate priorities, projects and services;
- Preparation for external inspection;
- Planning and Performance Management;
- Community Planning and Single Outcome Agreement;
- Emergency Planning and Business Continuity Management;
- Feedback and Complaints systems; and
- Scrutiny and Challenge.

Internal controls, whether of a financial or non financial nature, should give reasonable, but not absolute, assurances that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected in a timely period and corporate policy aims and objectives are being achieved. Chief Officials are responsible for internal financial and other control within their Divisions, and within Group Entities. Internal Audit is an independent appraisal function and its strategic and annual audit plans are targeted at the key risk areas above.

Governance controls should provide assurance that performance statements and other published information are accurate and reliable. Likewise, other governance controls should ensure human, financial and other resources are managed efficiently and effectively.

A self–assessment of the effectiveness of governance, over all matters of this nature, is carried out using the elements above, resulting in this Assurance Statement. A review of Midlothian Council's assurance system, across important elements of the Council's business, provides elected members and senior management with a reliable system to assess the adequacy of internal control and governance.

Annual Governance Statement

Governance Improvements highlighted in the 2009-10 self-assessment, which were completed or progressed during 2010-11:

- Budget savings were included in the 2010-11 budget;
- An internal audit of recommendations made during part of 2008-09 and the whole of 2009-10 (sample of 70% of recommendations taken) showed that the vast majority of recommendations had been implemented properly;
- The organisation and management reviews, creating new structures, was largely completed;
- Between risk tolerance and residual risk, the gap was closed in some risk exposures;
- Further plans were progressed for the Best Value 2 inspection; and
- Business Continuity Plans were realigned to the new organisational structure.

Governance matters identified during the 2010-11 self-assessment to be progressed during 2011-12

The Council acknowledges the need for continuous improvement and, as matter of course, is dealing with the following control matters, and these are being further progressed in 2011-12:-

- Further assurance is required that all officers involved in procurement are complying with the procurement procedures and that the Procurement Strategy and Plan to identify further efficiencies is developed.
- The need for continued benefits and savings to be realised from the Business Transformation Programme;
- Further work is required in dealing with residual risk through a programme of mitigating actions;
- Further improvement is required in the Community Planning Partnership, in terms of partner resource being targeted to desired outcomes;
- Emergency and business continuity plans are being updated and the Emergency Management Team is to re-train in its responses to emergencies;
- Heads of Service are being given support where they require improvement in internal control matters; and
- “Following the Public Pound” procedures and compliance are to be reviewed and responsibilities strengthened.

On the basis of the Council’s assurance system, and the elements of governance at its disposal, we are satisfied that overall, Midlothian Council’s corporate governance arrangements are of a satisfactory standard and that we are aware of areas where improvement is required. Steps will be taken in the forthcoming year to address, through appropriate actions, the above matters and to continue to advance our corporate governance and continuous improvement arrangements.

Signed:

Derek Milligan, Leader of the Council Kenneth Lawrie, Chief Executive

29 September 2011

Movement in Reserves Statement

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

2009/10 – Previous Year Comparative	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Insurance Fund £000	Repairs and Renewals Fund £000	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
Opening Balances at 1 April 2009	**(2,235)**	**(10,352)**	**0**	**(634)**	**(1,089)**	**(14,310)**	**(551,574)**	**(565,884)**
Movement in Reserves during 2009/10								
(Surplus) or deficit on provision of services	21,960	12,133	0	0	0	**34,093**	**0**	**34,093**
Other Comprehensive Expenditure and Income	0	0	0	0	0	**0**	**(107,060)**	**(107,060)**
Total Comprehensive Expenditure and Income	**21,960**	**12,133**	**0**	**0**	**0**	34,093	(107,060)	(72,967)
Adjustments between accounting basis and funding basis under regulations (note 4)	**(28,546)**	**(12,751)**	**0**	**0**	**0**	**(41,297)**	**41,297**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(6,586)**	**(618)**	**0**	**0**	**0**	**(7,204)**	**(65,763)**	**(72,967)**
Transfers to / from Other Statutory Reserves	(375)	0	0	634	(259)	0	(3)	(3)
Increase / Decrease in 2009/10	**(6,961)**	**(618)**	**0**	**634**	**(259)**	**(7,204)**	**(65,766)**	**(72,970)**
Balance at 31 March 2010 carried forward	**(9,196)**	**(10,970)**	**0**	**0**	**(1,348)**	**(21,514)**	**(617,340)**	**(638,854)**

2010/11 – Current Financial Year	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Insurance Fund £000	Repairs and Renewals Fund £000	**Total Usable Reserves £000**	**Unusable Reserves £000**	**Total Council Reserves £000**
Opening Balances at 1 April 2010	**(9,196)**	**(10,970)**	**0**	**0**	**(1,348)**	**(21,514)**	**(617,340)**	**(638,854)**
Movement in Reserves during 2010/11								
(Surplus) or deficit on provision of services	(29,447)	60,301	0	0	0	**30,854**	**0**	**30,854**
Other Comprehensive Expenditure and Income	0	0	0	0	0	**0**	**207,900**	**207,900**
Total Comprehensive Expenditure and Income	**(29,447)**	**60,301**	**0**	**0**	**0**	**30,854**	**207,900**	**238,754**
Adjustments between accounting basis and funding basis under regulations (note 4)	**26,059**	**(61,011)**	**(9,955)**	**0**	**0**	**(44,907)**	**44,907**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(3,388)**	**(710)**	**(9,955)**	**0**	**0**	**(14,053)**	**252,807**	**238,754**
Transfers to / from Other Statutory Reserves	296	0	0	0	(296)	0	(0)	(0)
Increase / Decrease in 2010/11	**(3,092)**	**(710)**	**(9,955)**	**0**	**(296)**	**(14,053)**	**252,807**	**238,754**
Balance at 31 March 2011 carried forward	**(12,288)**	**(11,680)**	**(9,955)**	**0**	**(1,644)**	**(35,567)**	**(364,533)**	**(400,100)**

Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2011

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

2009/10 Expenditure £000 Restated	2009/10 Income £000 Restated	2009/10 Net Expenditure £000 Restated	Continuing Operations	Notes	2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000
98,479	6,872	91,607	Education Services		90,937	2,983	87,954
52,873	10,639	42,234	Social Work		55,644	10,866	44,778
15,926	5,572	10,354	Culture and Related Services		14,185	3,836	10,349
10,667	1,069	9,598	Roads and Transport Services		10,407	246	10,161
8,291	345	7,946	Police Services		7,061	315	6,746
10,179	2,663	7,516	Environmental Services		9,440	1,543	7,897
6,708	4,702	2,006	Planning and Development Services		8,698	3,300	5,398
2,959	0	2,959	Fire Services		2,432	0	2,432
26,586	18,517	8,069	Housing Revenue Account		74,893	17,930	56,963
30,492	21,324	9,168	Other Housing Services		32,215	25,223	6,992
4,075	813	3,262	Corporate & Democratic Core		4,450	882	3,568
13,775	1,518	12,257	Central Services to the Public		1,521	985	536
1,370	0	1,370	Non-distributable Costs	5	(33,500)	0	(33,500)
282,380	**74,034**	**208,346**	**Deficit on Continuing Operations**		**278,383**	**68,109**	**210,274**
		1,825	Other Operating Expenditure	6			823
		14,221	Financing and Investment Income and Expenditure	7			12,670
		(190,299)	Taxation and Non-Specific Grant Income	8			(192,913)
		34,093	**(Surplus) or Deficit on Provision of Services**				**30,854**
		(172,790)	(Surplus) or Deficit on revaluation of non current assets				218,354
		66,582	Actuarial (gains) / losses on pension assets / liabilities	38			(9,591)
		(852)	Other (Gains) / Losses	12			(863)
		(107,060)	**Other Comprehensive (Income) and Expenditure**				**207,900**
		(72,967)	**Total Comprehensive (Income) and Expenditure**				**238,754**

Balance Sheet

As at 31 March 2011

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".

1st April 2009 £000 Restated	31st March 2010 £000 Restated		Notes	31st March 2011 £000
836,757	987,738	Property, Plant and Equipment	9	703,595
319	417	Intangible Assets	10	444
658	636	Assets held for Sale	11	2,079
962	962	Long Term Investments	13	962
1,089	1,378	Long Term Debtors	15	7,081
839,785	**991,131**	**Long Term Assets**		**714,161**
39,727	10,051	Short Term Investments	12	5,047
646	618	Inventories	14	663
11,285	13,514	Short Term Debtors	15	9,964
132	6,033	Cash and Cash Equivalents	16	25,782
51,790	**30,216**	**Current Assets**		**41,456**
276	1,609	Bank Overdraft	16	68
35,611	40,800	Short Term Borrowing	12	48,042
30,277	26,840	Short Term Creditors	17	29,734
8,078	5,062	Provisions	18,19	4,324
3,748	5,628	Grants Receipts in Advance	32	7,126
77,990	**79,939**	**Current Liabilities**		**89,294**
142,210	131,280	Long Term Borrowing	12	141,252
105,491	171,274	Other Long Term Liabilities	20	124,971
247,701	**302,554**	**Long Term Liabilities**		**266,223**
565,884	**638,854**	**Net Assets**		**400,100**
14,310	21,514	Usable Reserves	4,21	35,567
551,574	617,340	Unusable Reserves	4,22	364,533
565,884	**638,854**	**Total Reserves**		**400,100**

The unaudited accounts were issued on 24 June 2011 and the audited accounts were authorised for issue on 29 September 2011.

Signed:

Gary Fairley
Head of Finance and Human Resources
29 September 2011

Cash Flow Statement for the Year ended 31 March 2011

This statement summarises the inflows and outflows of cash arising from the transactions with third parties on both day-to-day revenue transactions and expenditure on capital activities. For the purpose of this statement, cash is defined as cash-in-hand and deposits repayable on demand less overdrafts repayable on demand.

2009/10 £000 Restated	**Revenue Activities**	**Notes**	**2010/11 £000**	**2010/11 £000**
(34,093)	**Net surplus or (deficit) on the provision of services**		(30,854)	
85,235	Adjustment to surplus or deficit on the provision of services for non cash movements	23	83,014	
(50,745)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23	(29,797)	
397	**Net Cash Flows From Operating Activities**			**22,363**
10,587	Net cash flows from investing activities	24	(17,098)	
(6,416)	Net cash flows from financing activities	25	16,025	
4,568	**Net Increase or Decrease in Cash and Cash Equivalents**			**21,290**
(144)	Cash and cash equivalents at the beginning of the reporting period		4,424	
4,424	**Cash and cash equivalents at the end of the reporting period**			**25,714**

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 2010/11;
- The number of employees whose remuneration was £50,000 or more, disclosed in pay bands of £5,000;
- 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 Audit Scotland 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. Circular CO/144 set the amount of salary for the Chief Executive of Midlothian Council for the period 2008 to 2011, however Chief Executives have forgone the April 2010 increase. For 2010/11 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 2010-11 this was £27,058. 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 2010-11 was £20,294.

The regulations also set out the remuneration that may be paid to senior councillors and the total number of senior councillors the Council may have. The maximum yearly amount that may be paid to a senior councillor is 75% of the total yearly amount payable to the Leader of the Council. The total yearly amount payable by the Council for remuneration of all of its Senior Councillors shall not exceed £146,112. The Council is also able to exercise local flexibility in the determination of the precise number of senior councillors and salary within these maximum limits. The Council policy is to divide this sum equally and pay each of the 8 senior councillors a salary of £18,264.

Remuneration Report

As at 31 March 2011 the Council had appointed 8 senior councillors and the remuneration paid to these councillors in the year totalled £144,709. The regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those councillors who elect to become councillor members of the pension scheme.

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

Pension Entitlement

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

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

The tiers and employees contributions rates for 2010-11 remain at the 2009-10 rates, and are as follows:

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

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

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

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

Remuneration Report

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

Remuneration Band	Number of Employees 2009/10	2010/11
£50,000 - £54,999	42	43
£55,000 - £59,999	11	12
£60,000 - £64,999	4	1
£65,000 - £69,999	5	7
£70,000 - £74,999	5	4
£75,000 - £79,999	2	2
£80,000 - £84,999	1	1
£85,000 - £89,999	0	0
£90,000 - £94,999	3	0
£95,000 - £99,999	2	3
£100,000 - £104,999	0	0
£105,000 - £109,999	0	0
£110,000 - £114,999	0	1
TOTAL	**75**	**74**

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

Name and Post Title	Salary, Fees & Allowances	Non Cash Benefits	Compensation for loss of employment	Total Remuneration	Total Remuneration For year to 31 March 2010
	For year to 31 March 2011				
K Lawrie, Chief Executive **	£109,198	-	-	£109,198	£60,908
K Lawrie, Returning Officer	£2,948	-	-	£2,948	-
D MacKay, Director Education & Children Services (1)	£91,022	£7,983	-	£99,005	£99,222
C Anderson, Director Communities & Wellbeing (2)	£91,022	£4,551	-	£95,573	£94,747
J Blair, Director Corporate Resources (3)	£91,022	£4,237	-	£95,259	£93,360
I Young, Director Strategic Services (4)	£24,593	-	£11,020	£35,613	£93,936
I Jackson, Director Corporate Services (5)	£29,303	-	£10,260	£39,563	£98,274
G Fairley, Head of Finance & Human Resources (6)	£48,269	£3,103	-	£51,372	-
H Kelly, Head of Customer Services (7)	£53,533	-	-	£53,533	-
N Grieve, Head of Law & Administration (8)	£27,515	-	£1,640	£29,155	£71,169
Total	**£568,425**	**£19,874**	**£22,920**	**£611,219**	**£611,616**

**** Part year for 2009/10.**

Remuneration Report

Notes to Remuneration paid to Senior Employees.

1. From 1 July 2010, formerly Director Education and Communities.
2. From 1 July 2010, formerly Director Social Work.
3. From 1 July 2010, formerly Director Commercial Services.
4. To 29 June 2010.
5. To 27 June 2010.
6. From 1 July 2010, full year equivalent salary £64,300.
7. From 1 July 2010, full year equivalent salary £68,226.
8. To 7 August 2010. The pension regulations make provision for discretionary payments to employees as compensation for premature retirement. N Grieve has been credited with 0.65 years additional service in lieu of compensation for loss of employment. In addition to the lump sum payment he receives annual compensation of £557.

Pension Entitlement of Senior Employees

In-year employers pension contributions

Name and Post Title	For year to 31 March 2011	For year to 31 March 2010
K Lawrie, Chief Executive	£21,286	£20,657
K Lawrie, Returning Officer	£598	-
D MacKay, Director Education & Children Services	£18,477	£17,494
C Anderson, Director Communities & Wellbeing	£18,477	£17,494
J Blair, Director Corporate Resources	£18,477	£17,494
I Young, Director Strategic Services	£8,568	£17,494
I Jackson, Director Corporate Services *(note)*	£177,906	£18,137
G Fairley, Head of Finance & Human Resources	£9,790	-
H Kelly, Head of Customer Services	£10,387	-
N Grieve, Head of Law & Administration *(note)*	£111,665	£13,269
Total	**£395,631**	**£122,039**

Note **-** Council made one off contributions in accordance with Pension Scheme regulations.

Accrued Pension Benefits

Name and Post Title	Pension as at 31 March 2011 £000	Lump Sum as at 31 March 2011 £000	Difference from 31 March 2010 Pension £000	Lump Sum £000
K Lawrie, Chief Executive	23	58	2	1
D MacKay, Director Education & Children Services	45	127	3	3
C Anderson, Director Communities & Wellbeing	48	135	3	4
J Blair, Director Corporate Resources	32	87	2	2
I Young, Director Strategic Services	44	127	1	1
I Jackson, Director Corporate Services	43	124	1	1
G Fairley, Head of Finance & Human Resources	23	62	-	1
H Kelly, Head of Customer Services	13	32	1	-
N Grieve, Head of Law & Administration	25	69	1	-
Total	**296**	**821**	**14**	**13**

Remuneration Report

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 and Vice-Convener of Lothian Joint Valuation Board

The following table provides details of the remuneration paid to senior councillors of Midlothian Council and the vice-convener of Lothian Joint Valuation Board.

Name	Salary	Expenses For year to 31 March 2011	Total Remuneration	Total Remuneration For year to 31 March 2010
D Milligan, Council Leader	£27,058	£538	£27,596	£27,437
A Montgomery, Provost	£20,294	£3,043	£23,337	£25,212
M Russell, Senior Councillor	£18,264	£93	£18,357	£18,335
P Boyes, Senior Councillor	£18,264	£1,043	£19,307	£18,914
A Bennett, Senior Councillor	£18,264	£400	£18,664	£18,954
J Aitchison, Senior Councillor	£18,264	£103	£18,367	£18,299
J Muirhead, Senior Councillor	£16,861	£334	£17,195	£16,268
R Imrie, Senior Councillor	£18,264	£823	£19,087	£19,004
W Chalmers, Senior Councillor	£18,264	£342	£18,606	£18,856
O Thompson, Senior Councillor	£18,264	£822	£19,086	£18,923
L Beattie, Councillor and Vice-Convener Lothian Joint Valuation Board	£18,771	£297	£19,068	£19,971
Total	**£210,832**	**£7,838**	**£218,670**	**£220,173**

The Council paid £0.324 million (2009/10 £0.324 million) salaries to Councillors and expenses of £0.011 million (2009/10 £0.013 million). The annual return of Councillor's salaries and expenses is available on the Council Website.

Pension Entitlement of Senior Councillors

In-year employers pension contributions

Name	For year to 31 March 2011	For year to 31 March 2010
A Montgomery, Provost	£4,120	£3,998
P Boyes, Senior Councillor	£3,708	£3,598
A Bennett, Senior Councillor	£3,708	£3,598
J Aitchison, Senior Councillor	£3,708	£3,598
R Imrie, Senior Councillor	£3,708	£3,598
W Chalmers, Senior Councillor	£3,708	£3,598
Total	**£22,660**	**£21,988**

Remuneration Report

Accrued Pension Benefits as at 31 March 2011

Name and Post Title	Pension as at 31 March 2011	Lump Sum as at 31 March 2011	Difference from 31 March 2010 Pension	Difference from 31 March 2010 Lump Sum
	£000	£000	£000	£000
A Montgomery, Provost	1	1	-	-
P Boyes, Senior Councillor	1	1	-	-
A Bennett, Senior Councillor	1	5	-	-
J Aitchison, Senior Councillor	1	1	-	-
R Imrie, Senior Councillor	1	1	-	-
W Chalmers, Senior Councillor	1	1	-	-
Total	**6**	**10**	**-**	**-**

Signed:

Derek Milligan, Leader of the Council

Kenneth Lawrie, Chief Executive

29 September 2011

Notes to the Financial Statements

1. Statement of Accounting Policies

1.1 Introduction

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

The Council has accounted for the transition to IFRS in accordance with IFRS 1: First time adoption of International Financial Reporting Standards, except where interpretations or adaptations to fit the public sector are detailed in the Code.

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

1.2 Summary of Significant Accounting Policies

1.2.1 Accruals of Income and Expenditure

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

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

1.2.2 Cash and Cash Equivalents

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

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

Notes to the Financial Statements

1.2.3 Exceptional Items

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

1.2.4 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

The IFRS Code makes a number of changes from its predecessor and they are covered in detail in note 42 to the Financial Statements.

1.2.5 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

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

1.2.6 Employee Benefits

Benefits Payable during Employment

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

Notes to the Financial Statements

Termination Benefits.

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

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

Post Employment Benefits

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

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

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

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

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means 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;
- 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.

1.2.7 Events After the Balance Sheet Date

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

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

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

Notes to the Financial Statements

1.2.8 Financial Instruments

Financial Liabilities

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

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

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

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

Financial Assets

Financial assets are classified into two types:

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

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.

Notes to the Financial Statements

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 latest indicative price achievable for the assets as a proxy for quoted market prices.

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

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

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

1.2.9 Foreign Currency Translation

Where the council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31st March 2011. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the CIES.

Notes to the Financial Statements

1.2.10 Government Grants and Contributions

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

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

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

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

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

1.2.11 Intangible Assets

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

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

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

Notes to the Financial Statements

1.2.12 Interests in Companies and Other Entities

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

1.2.13 Inventories and Long Term Contracts

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

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

1.2.14 Investment Properties

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

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

As at 31st March 2011 the Council has no properties that are classed as Investment Properties.

1.2.15 Leases

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

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

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

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

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

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

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

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

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

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

Recognition

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

Notes to the Financial Statements

Measurement

Assets are initially measured at cost, comprising:

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

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

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

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

- Council Houses are valued using the Beacon principle based on valuations carried out by the District Valuer and the Council's Principal Estates Surveyor. The main valuation basis used in 2010/11 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. In 2009/10 the Council applied a factor of 25%. During 2010/11 further work on appropriate methodologies for calculating the discount factor has been completed and whilst there is still no definitive guidance the Council decided to increase it to 64.5% to bring carrying values in line with most other Scottish local authorities. No prior period adjustment was made as this was a change in estimation technique rather than accounting policy and as such was not required by the code. Any new build housing and newly purchased houses are valued at historic cost;
- Land, operational and non-operational properties have been valued at the lower of cost and net realisable value in current use, or at net current replacement cost;
- Community and Infrastructure assets are valued at depreciated historic cost;
- Vehicles, Plant and Equipment have been valued at depreciated historic cost.
- Assets Under Construction are held at historic cost.
- Surplus Assets are valued at open market value.

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

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

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to a service.

Notes to the Financial Statements

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

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

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

Impairment

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

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

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

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

Depreciation

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

Deprecation is calculated on the following bases:

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

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

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

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 previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

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

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

1.2.18 Private Finance Initiative and similar contracts

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 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.

1.2.19 Provisions and Contingent Liabilities

Provisions

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

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

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

Contingent Liabilities

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

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

Notes to the Financial Statements

1.2.20 Reserves

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

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

The Council operates a Capital Fund under the terms of Schedule 3 to the Local Government (Scotland) Act 1975 and an Insurance Fund in accordance with Schedule 13 of the Local Government etc. (Scotland) Act 1994. In 2009/10 Council took the decision to discontinue use of the Insurance Fund with effect from 1st April 2010.

1.2.21 VAT

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

2. 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.

3. 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 Authorities Balance Sheet as at 31 March 2011 for which there is significant risk of material adjustment in the forthcoming year are as follows:

3.1 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.

Notes to the Financial Statements

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 £2.599 million for every year that useful lives had to be reduced.

<u>3.2 Pension Liabilities</u>

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

Effect if actual results differ from assumptions
During 2010/11 the actuary advised that the Balance Sheet position has improved since last year. This was principally due to the financial assumptions at 31 March 2011 being more favourable than they were at 31 March 2010 and pension increases being linked to the Consumer Price Index rather than the Retail Price Index which runs at a higher rate. The combined effect of these factors serves to decrease the value of liabilities and as a result have a positive impact on the IAS 19 position. The same factors have also given rise to reduced Comprehensive Income and Expenditure costs.

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

Sensitivities at 31 March 2011	Approximate % increase to Employer Obligation	Approximate monetary amount £000
0.5% decrease in Real Discount Rate	10%	31,654
1 year increase in member life expectancy	3%	9,672
0.5% increase in the Salary Increase Rate	3%	8,220
0.5% increase in the Pension Increase Rate	7%	21,303

Notes to the Financial Statements

4. Adjustments between Accounting Basis and Funding Basis Under Regulations

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

Usable Reserves 2009/10 Comparative Figures	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Insurance Fund £000	Usable Capital Receipts Reserve £000	Repairs And Renewals Fund £000	**Total Useable Reserves £000**
Reversal of items debited or credited to the CIES							
Charges for Depreciation and impairment of non-current assets	(39,019)	(12,062)	0	0	0	0	**(51,081)**
Net gain or loss on sale of non-current assets	(375)	(1,450)	0	0	0	0	**(1,825)**
Amortisation of Intangible Assets	(77)	0	0	0	0	0	**(77)**
Insertion of items not debited or credited to the CIES							
Loan / Lease repayments	7,390	761	0	0	0	0	**8,151**
Equal Pay Capitalisation	(2,142)	0	0	0	0	0	**(2,142)**
Adjustments primarily involving the Capital Grant Unapplied Account							
Application of Grants to Capital Financing transferred to the CAA	8,827	0	0	0	0	0	**8,827**
Adjustments primarily involving the Capital Fund							
Disposal of Fixed Assets / Capital Sales	0	0	0	0	(2,188)	0	**(2,188)**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	(1,367)	0	0	0	1,367	0	**0**
Capital Receipts used to Finance Capital Expenditure	0	0	0	0	821	0	**821**
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	(656)	0	0	0	0	0	**(656)**
Adjustments primarily involving the pensions reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	(9,932)	0	0	0	0	0	**(9,932)**
Employers Pension contributions and direct payments to pensioners payable in the year	9,932	0	0	0	0	0	**9,932**
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	(1,127)	0	0	0	0	0	**(1,127)**
Total Adjustments	**(28,546)**	**(12,751)**	**0**	**0**	**0**	**0**	**(41,297)**

Notes to the Financial Statements

Unusable Reserves 2009/10 Comparative Figures	Capital Adjustment Account £000	Revaluation Reserve £000	Accumulated Absences Account £000	Financial Instruments Adjustment Account £000	Available For Sale Financial Instruments Account £000	Pensions Reserve £000	**Total Unusable Reserves £000**
Reversal of items debited or credited to the CIES							
Charges for Depreciation and impairment of non-current assets	51,081	0	0	0	0	0	**51,081**
Net gain or loss on sale of non-current assets	1,825	0	0	0	0	0	**1,825**
Amortisation of Intangible Assets	77	0	0	0	0	0	**77**
Insertion of items not debited or credited to the CIES							
Loan / Lease repayments	(8,151)	0	0	0	0	0	**(8,151)**
Equal Pay Capitalisation	2,142	0	0	0	0	0	**2,142**
Adjustments primarily involving the Capital Grant Unapplied Account							
Application of Grants to Capital Financing transferred to the CAA	(8,827)	0	0	0	0	0	**(8,827)**
Adjustments primarily involving the Capital Fund							
Disposal of Fixed Assets / Capital Sales	2,188	0	0	0	0	0	**2,188**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	0	0	0	0	**0**
Capital Receipts used to Finance Capital Expenditure	(821)	0	0	0	0	0	**(821)**
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	0	0	0	656	0	0	**656**
Adjustments primarily involving the pensions reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	0	0	0	9,932	**9,932**
Employers Pension contributions and direct payments to pensioners payable in the year	0	0	0	0	0	(9,932)	**(9,932)**
Adjustments primarily involving the Employee Statutory Adjustment Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	1,127	0	0	0	**1,127**
Total Adjustments	**39,514**	**0**	**1,127**	**656**	**0**	**0**	**41,297**

Notes to the Financial Statements

Usable Reserves 2010/11	General Fund Reserve £000	HRA Balance £000	Capital Fund £000	Insurance Fund £000	Usable Capital Receipts Reserve £000	Repairs And Renewals Fund £000	**Total Useable Reserves £000**
Reversal of items debited or credited to the CIES							
Charges for Depreciation and impairment of non-current assets	(21,781)	(62,953)	0	0	0	0	**(84,734)**
Net gain or loss on sale of non-current assets	(823)	0	0	0	0	0	**(823)**
Amortisation of Intangible Assets	(125)	0	0	0	0	0	**(125)**
Insertion of items not debited or credited to the CIES							
Loan / Lease repayments	7,125	1,269	0	0	0	0	**8,394**
Net Revenue Expenditure Funded from Capital	177	0	0	0	0	0	**177**
Equal Pay Capitalisation	(1,112)	0	0	0	0	0	**(1,112)**
Adjustments primarily involving the Capital Grant Unapplied Account							
Application of Grants to Capital Financing transferred to the CAA	6,565	673	0	0	0	0	**7,238**
Adjustments primarily involving the Capital Fund							
Disposal of Fixed Assets / Capital Sales	0	0	0	0	(12,507)	0	**(12,507)**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	(120)	0	(9,955)	0	10,075	0	**0**
Capital Receipts used to Finance Capital Expenditure	0	0	0	0	2,432	0	**2,432**
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	(650)	0	0	0	0	0	**(650)**
Adjustments primarily involving the pensions reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	23,717	0	0	0	0	0	**23,717**
Employers Pension contributions and direct payments to pensioners payable in the year	12,148	0	0	0	0	0	**12,148**
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	938	0	0	0	0	0	**938**
Total Adjustments	**26,059**	**(61,011)**	**(9,955)**	**0**	**0**	**0**	**(44,907)**

Notes to the Financial Statements

Unusable Reserves 2010/11	Capital Adjustment Account £000	Revaluation Reserve £000	Accumulated Absences Account £000	Financial Instruments Adjustment Account £000	Available For Sale Financial Instruments Account £000	Pensions Reserve £000	**Total Unusable Reserves £000**
Reversal of items debited or credited to the CIES							
Charges for Depreciation and impairment of non-current assets	84,734	0	0	0	0	0	**84,734**
Net gain or loss on sale of non-current assets	823	0	0	0	0	0	**823**
Amortisation of Intangible Assets	125	0	0	0	0	0	**125**
Insertion of items not debited or credited to the CIES							
Loan / Lease repayments	(8,394)	0	0	0	0	0	**(8,394)**
Net revenue Expenditure Funded from Capital	(177)	0	0	0	0	0	**(177)**
Equal Pay Capitalisation	1,112	0	0	0	0	0	**1,112**
Adjustments primarily involving the Capital Grant Unapplied Account							
Application of Grants to Capital Financing transferred to the CAA	(7,238)	0	0	0	0	0	**(7,238)**
Adjustments primarily involving the Capital Fund							
Disposal of Fixed Assets / Capital Sales	12,507	0	0	0	0	0	**12,507**
Transfer of cash sale proceeds credited as part of the gain / loss on disposal of non-current assets	0	0	0	0	0	0	**0**
Capital Receipts used to Finance Capital Expenditure	(2,432)	0	0	0	0	0	**(2,432)**
Adjustments involving the Financial Instruments Adjustment Account							
Amount by which finance costs charged are different from finance costs chargeable in year in accordance with statutory requirements	0	0	0	650	0	0	**650**
Adjustments primarily involving the pensions reserve							
Reversal of items relating to retirement benefits debited or credited to the CIES	0	0	0	0	0	(23,717)	**(23,717)**
Employers Pension contributions and direct payments to pensioners payable in the year	0	0	0	0	0	(12,148)	**(12,148)**
Adjustments primarily involving the Employee Statutory Adjustment Account							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	(938)	0	0	0	**(938)**
Total Adjustments	**81,060**	**0**	**(938)**	**650**	**0**	**(35,865)**	**44,907**

Notes to the Financial Statements

5. Non-Distributable Costs

	2010/11 £000	2009/10 £000
Write-back of pension costs due to change from RPI to CPI	(34,409)	0
Other Pension Costs	909	1,370
Total Non-distributable Costs	**(33,500)**	**1,370**

6. Other Operating Income and Expenditure

	2010/11 £000	2009/10 £000
(Surplus)/Deficit on sale of non current assets	823	1,825
Total Other Operating Income and Expenditure	**823**	**1,825**

7. Financing and Investment Income and Expenditure

	2010/11 £000	Restated 2009/10 £000
Interest payable and similar charges	13,300	12,406
Pension interest cost and expected returns on pension assets	269	3,366
Interest received and similar income	(829)	(1,099)
(Surplus)/deficit on trading operations	(70)	(452)
Total	**12,670**	**14,221**

8. Taxation and Specific Grant Income

	2010/11 £000	2009/10 £000
Council Tax Income	37,123	36,733
Non Domestic Rates Income	32,172	33,396
Non-ringfenced Government Grants	123,618	120,170
Total Taxation and Non-Specific Grant Income	**192,913**	**190,299**

Notes to the Financial Statements

9. 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
Restated Gross Book value as at 31 March 2010	**631,498**	**32,194**	**307,352**	**16,726**	**34,309**	**899**	**20,292**	**11,859**	**1,055,129**
Additions	9,377	0	1,240	1,564	3,670	0	17,813	64	33,728
Disposals	(4,758)	(3)	(34)	(461)	0	0	(10)	(1)	(5,267)
Revaluations and Restatements	(290,792)	116	(292)	2	0	1,979	0	3,046	(285,941)
Impairments	0	(1,089)	(280)	0	0	0	0	0	(1,369)
Reclassifications	0	(1,244)	(76)	0	0	0	719	(9,331)	(9,932)
Gross Book value at 31 March 2011	**345,325**	**29,974**	**307,910**	**17,831**	**37,979**	**2,878**	**38,814**	**5,637**	**786,348**
Restated Depreciation as at 31 March 2010	**(10,369)**	**(296)**	**(31,946)**	**(10,513)**	**(14,223)**	**(10)**	**0**	**(34)**	**(67,391)**
Depreciation for the year	(13,454)	(41)	(14,419)	(2,189)	(2,224)	(49)	0	0	(32,376)
Write back depreciation on upward revaluations	12,429	289	3,781	93	0	6	0	0	16,598
Write back depreciation on impairments	0	0	0	0	0	0	0	0	0
Write back depreciation on disposals	0	0	11	405	0	0	0	0	416
Reclassifications	0	0	0	0	0	0	0	0	0
Depreciation as at 31 March 2011	**(11,394)**	**(48)**	**(42,573)**	**(12,204)**	**(16,447)**	**(53)**	**0**	**(34)**	**(82,753)**
Net book value as at 31 March 2010	**621,129**	**31,898**	**275,406**	**6,213**	**20,086**	**889**	**20,292**	**11,825**	**987,738**
Net book value as at 31 March 2011	**333,931**	**29,926**	**265,337**	**5,627**	**21,532**	**2,825**	**38,814**	**5,603**	**703,595**

Notes to the Financial Statements

	Houses £000	Land £000	Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Under Construction £000	Surplus Assets £000	Total £000
Restated Gross Book value as at 31 March 2009	**446,444**	**30,639**	**290006**	**18,130**	**33,335**	**809**	**51,490**	**23,720**	**894,573**
Additions	13,317	1,000	7,619	744	974	0	9,118	476	33,248
Disposals	(2,297)	(305)	(113)	(446)	0	0	0	(1,315)	(4,476)
Revaluations and Restatements	152,158	(3,559)	4,470	(1,702)	0	169	0	(3,454)	148,082
Impairments	0	0	(9,789)	0	0	(79)	0	(6,430)	(16,298)
Reclassifications	21,876	4,419	15,159	0	0	0	(40,316)	(1,138)	0
Gross Book value at 31 March 2010	**631.498**	**32,194**	**307,352**	**16,726**	**34,309**	**899**	**20,292**	**11,859**	**1,055,129**
Restated Depreciation as at 31 March 2009	**(6,702)**	**(162)**	**(28,629)**	**(10,255)**	**(12,065)**	**(3)**	**0**	**0**	**(57,816)**
Depreciation for the year	(14,209)	(134)	(15,748)	(2,501)	(2,158)	(7)	0	0	(34,757)
Write back depreciation on upward revaluations	10,525	0	7,392	1,805	0	0	0	0	19,722
Write back depreciation on impairments	0	0	4,994	0	0	0	0	0	4,994
Write back depreciation on disposals	28	0	0	438	0	0	0	0	466
Reclassifications	(11)	0	45	0	0	0	0	(34)	0
Depreciation as at 31 March 2010	**(10,369)**	**(296)**	**(31,946)**	**(10,513)**	**(14,223)**	**(10)**	**0**	**(34)**	**(67,391)**
Net book value as at 31 March 2009	**439,742**	**30,477**	**261,377**	**7,875**	**21,270**	**806**	**51,490**	**23,720**	**836,757**
Net book value as at 31 March 2010	**621,129**	**31,898**	**275,406**	**6,213**	**20,086**	**889**	**20,292**	**11,825**	**987,738**

Revaluations

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

Notes to the Financial Statements

Land, operational and non-operational properties have been valued on the basis of net realisable value in existing use or at net current replacement cost. Community and infrastructure assets are valued at depreciated historic cost. Vehicles, plant and equipment have been valued at depreciated historic cost.

10. Intangible Assets

Software licences are held for a number of systems operated by the Council which cost £0.646 million in 2010/11 (2009/10 £0.494 million). This cost is being written off over 3 or 5 years depending on the life of the licence. A total of £0.202 million has been written off in 2010/11 (2009/10 £0.077 million).

	2010/11	2009/10
	£000	**£000**
Gross carrying amount at start of year	**494**	**319**
Accumulated amortisation	(77)	0
Net carrying amount at the start of year	417	319
Additions – purchased	152	175
Amortisation	(125)	(77)
Net Book Value at Year End	**444**	**417**

11. Movement in Assets Held for Sale

	2010/11	2009/10
	£000	**£000**
Balance Outstanding as at 1 April	**636**	**658**
Additions	42	12
Transfers from Non Current Assets during the year	9,932	0
Revaluations and Restatements	0	(5)
Impairments	0	(29)
Assets sold at cost	(8,531)	0
Balance Outstanding as at 31 March	**2,079**	**636**

Notes to the Financial Statements

12. 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

	Long Term 31.3.11 £000	Long Term 31.3.10 £000	Current 31.3.11 £000	Current 31.3.10 £000
Borrowings				
Financial Liabilities at amortised cost	141,252	131,280	48,042	40,800
Creditors			31,098	26,840
Investments				
Loans and Receivables	0	0	5,047	10,051
Available-for-sale Financial Assets	962	962	0	0
Cash and Cash Equivalents	0	0	25,782	6,033

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

The long term figures shown above reflect the SORP guidance that states in undertaking EIR calculations the maturity period of a LOBO should be taken as being the contractual period to maturity.

Gains and Losses on Financial Instruments

There were gains of £0.863 million on financial instrument adjustment account (2009/10 £0.853 million) which were recognised in the Comprehensive Income and Expenditure Statement for the year.

Fair Value of Assets and Liabilities Carried at Amortised Cost

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

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

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

The rates quoted in this valuation were obtained by Sector, the Council's treasury management consultants, from the market on 31st March 2011 using bid prices where applicable.

Notes to the Financial Statements

The calculations are made with the following assumptions:

- For PWLB debt, the discount rate used is the rate for new borrowing as per rate sheet number 063/10 issued by PWLB on 31st March 2011;
- For other market debt and investments the discount rate used is the rate available for an instrument with the same terms from a comparable lender;
- Interpolation techniques have been used between available rates where the exact maturity period was not available;
- No early repayment or impairment is recognised;
- Fair values have been calculated for all instruments in the portfolio, but only those which are materially different from the carrying value are disclosed;
- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

Fair values of liabilities are calculated as:

	31 March 2011					31 March 2010	
Liability	**Principal Outstanding**	**Add LOBO Accounting Adjustment**	**Add Accrued Interest**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
PWLB	141,267	-	1,068	142,335	135,510	122,142	125,289
LOBO	20,000	650	272	20,922	23,905	20,931	24,779
European Investment Bank	13	-	1	14	15	18	22
Short Term Borrowing	26,000	-	23	26,023	26,001	29,113	29,095
Bank Overdraft	68	-	-	68	68	1,609	1,609
Total	**187,348**	**650**	**1,364**	**189,362**	**185,499**	**173,813**	**180,794**

Short Term borrowing as shown in the Balance Sheet of £48.042 million comprises accrued interest of £1.364 million, the LOBO transition/amortisation adjustment of £0.650 million and principal to be repaid within 12 months of £46.028 million.

Fair values of assets are calculated as:

	31 March 2011				31 March 2010	
Investments	**Principal Advanced**	**Add Accrued Interest**	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and Cash Equivalents	25,761	21	25,782	25,782	6,033	6,033
Deposits with Banks and Building Societies	5,000	47	5,047	5,069	10,051	10,094
Total	**30,761**	**68**	**30,829**	**30,851**	**16,084**	**16,127**

Notes to the Financial Statements

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 with government backed institutions to a maximum of £30 million and a limit on the maximum size of one transaction in placing a deposit of £15 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 2011 £000	**Historical experience of default %**	**Historical experience adjusted for market conditions as at 31 March 2010 %**	**Estimated maximum exposure to default and non collectable amounts £000**
Deposits with banks and other financial institutions	30,829	0	0	0

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

Age Analysis

	31 March 2011 £000	**31 March 2010 £000**
Less than 3 months	25,782	6,033
3 to 6 months	0	0
6 months to 1 year	5,047	10,051
More than 1 year	0	0
Total	**30,829**	**16,084**

Liquidity Risk

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

Market Risk

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

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

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

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

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

According to this assessment strategy, at 31 March 2011, if interest rates had been 1% higher with all other values held constant, the financial effect would have been:

Interest Rate Risk

	£000
Increase in interest payable on variable rate borrowings	351
Increase in interest receivable on variable rate instruments	-431
Increase in government grant receivable for financing costs	0
Impact on CIES	**-80**
Share of overall impact credited to the HRA	**41**
Decrease in fair value of "available for sale" investment assets	25
Other Comprehensive Income and Expenditure	**25**

The impact of a 1% fall in interest rates has not been calculated due to base rate currently sitting at 0.5% and £7.7 million of the council's short-term investments receiving interest of less than 1%.

Price Risk

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

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

Notes to the Financial Statements

13. Long Term Investments

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

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

The most recent results of the company are as follows:

	Year to 31 December 2009 £000	Year to 31 December 2010 £000
Turnover	112,158	112,642
Profit before taxation	8,494	30,050
Taxation	2,753	3,760
Profit after taxation	5,741	26,290
Ordinary dividend	2,197	2,197
Transfer to / (from) reserves	1,346	21,895
Net assets at end of year	**11,851**	**48,295**

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

14. Inventories

In carrying out its work the Council holds reserves of stock. The value of inventories at the year end 2010/11 was £0.663 million (2009/10 £0.618 million).

15. Debtors

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

Short Term Debtors

Restated 2009/10 £000	Restated 2009/10 £000		2010/11 £000	2010/11 £000
23,351		Council Tax and Community Charge	25,529	
(21,611)		Less: bad debt provision	(22,589)	
	1,740			2,940
	1,956	Central Government Bodies		548
	0	Other Local Authorities		104
	691	Public Corporations and Trading Funds		493
10,759		Grants, External Debtor accounts and other Income due	7,547	
(1,632)		Less: bad debt provision	(1,668)	
	9,127			5,879
	13,514	**Net Debtors**		**9,964**

Notes to the Financial Statements

Long Term Debtors

	2010/11 £000	2009/10 £000
Prepayment to PPP Contractor	1,644	1,348
Capital Receipt – Kippielaw Site	5,400	0
Other	37	30
Total Long Term Debtors	**7,081**	**1,378**

16. Cash and Cash Equivalents

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

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

	2010/11 £000	2009/10 £000
Cash and Bank Balances	55	54
Short Term Investments Considered to be Cash Equivalents	0	0
Short Term Deposits Considered to be Cash Equivalents	25,727	5,979
Total Cash and Cash Equivalents	**25,782**	**6,033**
Bank Overdraft	**(68)**	**(1,609)**

17. Creditors

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

Restated 2009/10 £000		2010/11 £000
5,553	Payroll Costs Due	4,934
7,115	Accumulated Absences	6,177
793	Central Government Bodies	588
378	Other Local Authorities	1,168
40	Public Corporations and Trading Funds	451
83	NDR/Council Tax	859
12,878	Other Entities and Individuals	15,557
26,840	**Total Creditors**	**29,734**

Notes to the Financial Statements

18. Equal Pay Claims and Provision

Included in the Net Cost of Services is an increase in expenditure of £0.226 million (2009/10 reduction of £1.372 million) in respect of providing for settlement of Equal Pay claims under the Equal Pay Act 1970. At 31 March 2011 £8.691million of claims have been settled and an estimate of £3.748 million for outstanding claims has been provided for in other provisions.

In 2009/10 the Scottish Government introduced a scheme to allow local authorities to borrow to help them manage equal pay costs. Midlothian Council was granted consent of £9.091 million for 2009/10 and 2010/11.

In 2010/11 the figure was £1.112 million (2009/10 £2.142 million). Scottish Ministers have granted an extension to the borrowing consent to allow borrowing of £1 million in 2011/12.

19. Insurance Provisions

A provision for potential uninsured losses arising from claims is also made and this amounted to £0.576 million at 31 March 2011 and £0.432 at 31 March 2010 and is shown in other provisions.

20. Other Long Term Liabilities

	2010/11	**Restated 2009/10**
	£000	**£000**
Net Pension Liabilities	63,802	109,258
Finance Lease Liability	131	194
PPP Liabilities	61,038	61,822
Total Long Term Liabilities	**124,971**	**171,274**

21. Usable Reserves

Movement in the Council's usable reserves are detailed in the Movement in Reserves Statement and in note 4.

	31st March2010	**31st March2011**
	£000	**£000**
General Fund Reserve	(9,196)	(12,288)
HRA Balance	(10,970)	(11,680)
Capital Fund	0	(9,955)
Repairs and Renewals Fund	(1,348)	(1,644)
Total Usable Reserves	**(21,514)**	**(35,567)**

Notes to the Financial Statements

22. Unusable Reserves

		31st March 2010 £000	31st March 2011 £000
22.1	Capital Adjustment Account	(432,519)	(360,852)
22.2	Revaluation Reserve	(304,516)	(76,770)
22.3	Pension Reserve	109,258	63,802
22.4	Accumulated Absences Account	7,115	6,177
22.5	Financial Instruments Adjustment Account	3,934	3,722
22.6	Available for Sale Financial Instruments Reserve	(612)	(612)
	Total Unusable Reserves	**(617,340)**	**(364,533)**

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 amortizations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

Note 4 provides further details of transactions posted to the Account.

	2009/10 £000	2010/11 £000
Balance at 1st April	**(461,008)**	**(432,519)**
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for Depreciation and impairment of non-current assets	34,755	32,376
- Revaluation losses on Property, Plant and Equipment	16,326	52,358
- Amortisation of intangible assets	77	125
- Amounts of non-current assets written off on gain/loss on disposal to CIES	4,012	12,507
- Adjusting amount written out to Revaluation reserve	(11,024)	(8,570)
Net written out amount of the cost of non-current assets consumed in year	(416,862)	(343,723)
Capital Financing for the year:		
- Use of Capital Receipts to finance new Capital expenditure	(821)	(2,432)
- Equal Pay Capitalisation	2,142	1,112
- Capital Grants and Contributions to the CIES	(8,827)	(7,238)
- Loan and Lease Principal repayments	(8,151)	(8,394)
- Capital expenditure charged against the General Fund	0	(177)
Balance at 31st March	**(432,519)**	**(360,852)**

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.

Notes to the Financial Statements

	2009/10	2010/11
	£000	£000
Balance at 1st April	**(142,748)**	**(304,516)**
(Upward) / downward Revaluation of Assets	(172,790)	219,153
Downward revaluation of assets and impairment losses not charged to the Surplus / (Deficit) on the provision of services	9,594	8,570
Accumulated losses on assets sold	1,428	23
Balance at 31st March	**(304,516)**	**(76,770)**

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.

	2009/10	2010/11
	£000	£000
Balance at 1st April	**42,676**	**109,258**
Actuarial (gains) or losses on pension assets and liabilities	66,582	(9,591)
Reversals of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services in the Comprehensive Income and Expenditure Statement	9,932	(23,717)
Employer's pension contributions	(9,932)	(12,148)
Balance at 31st March	**109,258**	**63,802**

22.4 Accumulated Absences Account

The accumulated Absences 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.

	2009/10	2009/10	2010/11	2010/11
	£000	£000	£000	£000
Balance at 1st April		**5,988**		**7,115**
Settlement or cancellation of accrual made at end of preceding year	(5,988)		(7,115)	
Amounts accrued at the end of the current year	7,115		6,177	
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		1,127		(938)
Balance at 31st March		**7,115**		**6,177**

Notes to the Financial Statements

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.

	2009/10	2010/11
	£000	£000
Balance at 1st April	**4,130**	**3,934**
Proportion of equivalent interest rate calculation on lender option / borrower option loans	656	650
Change in share of equivalent interest rate calculation	(852)	(862)
Balance at 31st March	**3,934**	**3,722**

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. There was no movement in the reserve during 2009/10 and 2010/11. The balance at 31 March 2011 is £(0.612) million.

Notes to the Financial Statements

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

2009/10 £000		2010/11 £000
(34,093)	**Net surplus or (deficit) on the provision of services**	**(30,854)**
	Adjustment to surplus or deficit on the provision of services for noncash movements	
34,755	Depreciation	32,376
16,326	Impairment & downward revaluations (& non-sale derecognitions)	52,359
77	Amortisation	125
409	Adjustment for internal interest charged	270
28	(Increase)/Decrease in Stock	(45)
(1,695)	(Increase)/Decrease in Debtors	2,070
601	(Increase)/Decrease in Interest and Dividend Debtors	4
656	Adjustment for effective interest rates	650
(4,516)	Increase/(Decrease) in Creditors	10,757
0	Increase/(Decrease) in Interest Creditors	(1,140)
0	Pension Liability	(35,865)
4,012	Carrying amount of non-current assets sold	13,381
(3,016)	Contributions to Other Reserves/Provisions	(738)
39,727	Carrying amount of short and long term investments sold	10,000
(2,129)	Other non-cash movements and transfers to investing activities	(1,189)
85,235		**83,014**
	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	
(39,727)	Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	(10,000)
(2,683)	Proceeds from the sale of PP&E, investment property and intangible assets	(12,558)
(8,335)	Capital grants included in "Taxation & non-specific grant income”	(7,239)
(50,745)		**(29,797)**
397	**Net Cash Flows from Operating Activities**	**22,363**

24. Net Cash Flows from Investing Activities

2009/10 £000		2010/11 £000
(30,562)	Purchase of PP&E, investment property and intangible assets	(39,155)
(10,051)	Purchase of Short Term Investments (not considered to be cash equivalents)	(5,000)
2,188	Proceeds from the sale of PP&E, investment property and intangible assets	12,558
39,727	Proceeds from Short Term Investments (not considered to be cash equivalents)	10,000
9,285	Other Receipts from Investing Activities	4,499
10,587	**Net Cash flows from Investing Activities**	**(17,098)**

25. Net Cash Flows from Financing Activities

2009/10 £000		2010/11 £000
34,400	Cash Receipts from Short and Long Term Borrowing	162,100
(799)	Cash payments for the reduction of the outstanding liability relating to a finance lease and on-Balance Sheet PFI contracts	(847)
(40,017)	Repayment of Short and Long Term Borrowing	(145,228)
(6,416)	**Net Cash flows from Financing Activities**	**16,025**

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. It should be noted that the management structure in 2009/10 was different to that of 2010/11.

2009/10	**Communities & Wellbeing £000**	**Corporate Resources £000**	**Education & Children's Services £000**	**Joint Boards £000**
Fees, charges and other service income	(14,840)	(52,623)	(1,874)	(345)
Government grants	-	-	-	-
Total Income	**(14,840)**	**(52,623)**	**(1,874)**	**(345)**
Employee expenses	17,044	35,948	62,422	-
Other Service Expenses	37,137	57,576	30,902	11,805
Total Expenditure	**54,181**	**93,524**	**93,324**	**11,805**
Net Expenditure	**39,341**	**40,901**	**91,450**	**11,460**

2009/10 continued	**Management £000**	**Non Distributable Costs £000**	**Non Divisional Costs £000**	**Total £000**
Fees, charges and other service income	-	-	(45,930)	**(115,612)**
Government grants	-	-	(154,753)	**(154,753)**
Total Income	**-**	**-**	**(200,683)**	**(270,365)**
Employee expenses	1,322	1,871	-	**118,607**
Other Service Expenses	183	-	9,849	**147,452**
Total Expenditure	**1,505**	**1,871**	**9,849**	**266,059**
Net Expenditure	**1,505**	**1,871**	**(190,834)**	**(4,306)**

Notes to the Financial Statements

2010/11	Communities & Wellbeing £000	Corporate Resources £000	Education & Children's Services £000	Joint Boards £000
Fees, charges and other service income	(16,290)	(62,035)	(1,760)	(315)
Government grants	-	-	-	-
Total Income	**(16,290)**	**(62,035)**	**(1,760)**	**(315)**
Employee expenses	18,551	37,559	60,789	-
Other Service Expenses	36,810	67,133	31,015	10,071
Total Expenditure	**55,361**	**104,692**	**91,804**	**10,071**
Net Expenditure	**39,071**	**42,657**	**90,044**	**9,756**

2010/11 continued	Management £000	Non Distributable Costs £000	Non Divisional Costs £000	Total £000
Fees, charges and other service income	-	-	(42,046)	**(122,446)**
Government grants	-	-	(156,205)	**(156,205)**
Total Income	**-**	**-**	**(198,251)**	**(278,651)**
Employee expenses	675	3,749	487	**121,810**
Other Service Expenses	59	-	10,066	**155,154**
Total Expenditure	**734**	**3,749**	**10,553**	**276,964**
Net Expenditure	**734**	**3,749**	**(187,698)**	**(1,687)**

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.

	2009/10 £000	2010/11 £000
Net Expenditure per Council functional analysis	(4,306)	(1,687)
HRA Outturn	(618)	(710)
Total Net Expenditure	**(4,924)**	**(2,397)**
Net Expenditure of services not included in CIES		
Loans fund Principal repayments	(7,352)	(7,547)
Statutory Provision for the repayment of Debt	(799)	(847)
Capital Financed from Current Revenue	0	(177)
Capital Fund	(1,367)	(120)
Repairs and Renewals	(259)	(296)
Insurance Fund	(634)	0
Other	123	(53)
Amounts in the CIES not reported to Management		
Depreciation, Impairment and Amortisation	51,158	84,859
Surplus / (losses) on sale of fixed assets	1,825	823
Financing Costs	656	650
Pensions Interest Costs	3,366	(35,865)
Short Term Accumulated Absences	1,127	(938)
Government Grants and Contributions	(8,827)	(7,238)
(Surplus) or Deficit on Provision of Services	**34,093**	**30,854**

Notes to the Financial Statements

27. Statutory Trading Accounts

The Local Government in Scotland Act 2003 repealed Compulsory Competitive Tendering and set out a requirement for Statutory Trading Accounts to be maintained for Significant Trading Operations and that they should break even over a three-year rolling period. The Council maintains Statutory Trading Accounts for the following activities which it considers to be Significant Trading Operations. For the rolling period 2008/09 to 2010/11 Building Maintenance and Roads Maintenance achieved the required financial objective.

	2010/11 £000	2009/10 £000	2008/09 £000	Cumulative £000
Building Maintenance				
Turnover	7,179	6,976	6,339	
Surplus/ (Deficit)	70	473	397	**940**
Less cost of capital				**(22)**
Movement in Accumulated Absence Account				**(17)**
Revised Surplus				**901**
Roads Maintenance				
Turnover	9,006	4,476	5,909	
Surplus/ (Deficit)	126	104	203	**433**
Less cost of capital				**(91)**
Movement in Accumulated Absence account				**(6)**
Revised Surplus				**336**

The surplus of £0.070 million on Building Maintenance is shown in the CIES under Financing and Investment Income and Expenditure. In accordance with BVACOP, Roads Maintenance is included within the Net Cost of Services on the CIES as part of Roads and Transportation Services. The cost of capital is illustrated above but is not reflected in the CIES.

In the 2009/10 Financial Statements Investment Properties were classified as a Trading Account. The application of the IFRS code results in the reclassification of these properties as operational as they do not meet the strict categorisation criteria of an investment property. The comparative figures have been amended to reflect 2010/11 treatment.

Notes to the Financial Statements

28. Agency Income and Expenditure

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

The main items of agency expenditure and income were:

	2010/11	2009/10
Expenditure	**£000**	**£000**
Payments to other Local Authorities in respect of:		
Social Work services for Midlothian clients	864	1,059
Services for Additional Support Needs pupils	189	231
Pentland Hills Regional Park	53	90
Non Domestic Rates collection services	40	59
Childcare services	39	41
Sample analysis	11	28
Taxi inspections	33	28
Mortuary Services	26	28
Visually impaired service	30	29
Other	118	92
Payments made to Health Boards in respect of:		
Speech and Language Service	193	195
	1,596	**1,880**
Income		
Receipts from other Local Authorities in respect of:		
Social Work services	309	277
Additional Support Needs pupils	116	152
Audiology service	67	70
Receipts from Scottish Water for tax collection	217	215
Receipts from Housing Associations in respect of:		
Social Work services	11	10
	720	**724**

29. Audit Fees

The fee payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice is £0.244 million (2009/10 £0.250 million). There were no other fees payable in respect of any other services provided by the appointed auditor.

30. Devolved School Management

The net amount of balances to be carried forward for schools under the scheme is £0.655 million (2009/10 recovery from schools of £0.051 million). The balances held under the scheme are not shown as a separate reserve but are earmarked within the General Fund Reserve.

Notes to the Financial Statements

31. Grant Income Credited to Services

The Council credited the following grants to the CIES:

	2010/11	2009/10
	£000	£000
Housing/Rent Benefit Subsidy	27,259	23,338
Lothian Health Board/Resource Transfer	5,149	4,929
Criminal Justice	908	854
Housing Benefit Administration	642	703
Skillseekers	567	408
Future Jobs Fund	500	67
Edinburgh Science triangle	410	341
Determined to Succeed	319	371
Private Sector Housing Grant	317	522
Police Grant	315	345
Active Schools/Sports Scotland	270	238
Flexible New Deal	144	2
Working for Families	144	239
Learning disabilities Day/Residential Care	141	136
Lifeskills Project	128	142
Strategic Waste Partnership	120	430
Contaminated Land	107	110
PAVE	105	-
Youth Music Initiative	104	135
Community Task Force	101	-
Other Grants and Contributions	2,070	2,584
Total Grants and Contributions	**39,820**	**35,894**

32. 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:

	2010/11	2009/10
	£000	£000
Balance at 1April	**5,628**	**3,748**
New capital grants received in advance, conditions of use not met	1,590	2,374
Amounts released to CIES, conditions of use met	(92)	(494)
Balance at 31 March	**7,126**	**5,628**

Notes to the Financial Statements

33. Related Parties

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

	2010/11 £000	2009/10 £000
Lothian and Borders Police Board	6,746	7,946
Lothian and Borders Fire Board	2,432	2,958
Lothian Valuation Board	577	555
Lothian Pension Fund	12,566	12,033

Creditors within the Balance Sheet include £0.914 million (2009/10 £0.934 million) due to Lothian Pension Fund.

34. Capital Expenditure and Capital Receipts

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

Restated 2009/10 £000	Capital Expenditure	2010/11 £000
	General Fund Services:	
10,578	Property, Plant and Equipment	7,366
12	Assets Held for Sale	42
175	Intangible Assets	152
10,765	**General Fund Total**	**7,560**
	Housing Revenue Account	
22,670	**Property, Plant and Equipment**	**26,363**
33,435	**Total Capital Expenditure**	**33,923**
	Capital Financing:	
821	Capital Receipts – Sale of Council Houses	2,418
7,604	Government Grants	6,649
731	Contribution from Other Bodies	767
494	Other Receipts	65
23,785	Advances from Loans Fund	24,024
33,435	**Capital Financing Total**	**33,923**

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

2009/10	Capital Receipts from the disposal of fixed assets	2010/11
£000	Gross Capital Receipts during year:	**£000**
821	Sale of Council Houses	2,418
1,347	Other Land and Buildings	9,986
20	Vehicles	154
2,188	**Gross Capital Receipts Total**	**12,558**
	Capital Receipts:	
821	Utilised in the year	2,483
1,367	Retained and transferred to the Capital Fund	10,075
2,188	**Capital Receipts Applied Total**	**12,558**

Notes to the Financial Statements

35. Commitments under Capital Contracts

At the end of the year, the Council was contractually committed to capital works which amounted to approximately £12.472 million (2009/10 £12.789 million).

36. Leases

Finance

In addition to the PPP's which are explained in depth in note 37, the Council has assets financed under the terms of a finance lease for the Bonnyrigg District Heating Scheme. The amount charged to the revenue account under these arrangements in the year was £0.063 million (2009/10 £0.062 million). This all related to Vehicles, Plant and Equipment. Future cash payments under this leases within 1 year is £0.065 million (2009/10 £0.063 million), within 2 to 5 years is £0.066 million (2009/10 £0.131 million) and over 5 years is nil (2009/10 nil). The carrying value of these assets at 31 March 2011 was £0.179 million (2009/10 £0.218 million).

Operating

The council uses assets financed under the terms of an operating lease. The amount charged to revenue for the year was £0.658 million (2009/10 £0.666 million). This all related to Vehicles, Plant and Equipment. Future cash payments under these leases within 1 year is £0.400 million (2009/10 £0.463 million) and within 2 to 5 years is £0.195 million (2009/10 £0.205 million).

37. Public Private Partnership

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

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

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

The value of assets held under PFI arrangements at 31 March 2011 is £66.470 million (2009/10 £67.766 million). The movement is depreciation of £1.296 million. There is a deferred liability at 31 March 2011 for the financing of these assets of £61.038 million (2009/10 £61.821 million). Details of payments to be made under PFI arrangements are:

Notes to the Financial Statements

	Dalkeith Campus				Primary Schools			
	Liability	Interest	Service Charge	Total	Liability	Interest	Service Charge	Total
Period	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Within 1 year	341	2,711	1,643	4,695	494	2,517	1,584	4,595
Within 2 to 5 years	1,751	10,456	6,994	19,201	2,272	9,687	6,847	18,806
Within 6 to 10 years	3,403	11,856	9,772	25,031	3,779	11,063	9,717	24,559
Within 11 to 15 years	5,535	9,724	11,056	26,315	5,373	9,469	10,994	25,836
Within 16 to 20 years	9,003	6,256	12,509	27,768	7,640	7,202	12,438	27,280
Within 21 to 25 years	6,495	1,234	6,959	14,688	10,863	3,979	14,073	28,915
Within 26 to 30 years					4,089	402	4,624	9,115
Total Contract	**26,528**	**42,237**	**48,933**	**117,698**	**34,510**	**44,319**	**60,277**	**139,106**

38. 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 2010/11 the Council paid £5.112 million (2009/10 £5.164 million) to the Scottish Government in respect of teachers’ pension costs. The rate of contribution was 14.9% (2009/10 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 2010/11 the Council paid an employer contribution of £12.148 million (2009/10 £9.932 million) into the Lothian Pension Fund, representing 24.9% (2009/10 21.8%) of pensionable pay. This is the expenditure met from Government Grants and Local Taxation.

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

Notes to the Financial Statements

CIES

	2010/11 £000	**2009/10 £000**
Net cost of services:		
Current Service Cost	10,067	5,111
Past Service Costs	(34,409)	1,442
Curtailments	356	13
Net operating expenditure:		
Interest cost	18,036	15,144
Expected return on scheme assets	(17,767)	(11,778)
Net charge to CIES	**(23,717)**	**9,932**

Adjustment between accounting basis & funding basis under regulation

Reversal of net charges made for retirement benefits in accordance with IAS 19	23,717	(9,932)
Employers contributions payable to pension fund	12,148	9,932

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 £9.591 million (2009/10 loss of £66.582 million) were included in other comprehensive income and expenditure in the CIES. The cumulative loss at 31 March 2011 is £75.277 million (31/3/10 loss of £84.868 million).

Assets and Liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	2010/11 £000	**2009/10 £000**
Opening Balance	350,937	219,692
Current Service Costs	10,067	5,111
Interest Cost	18,036	15,144
Contribution by Members	3,000	2,877
Actuarial losses/(gains)	(13,966)	116,538
Past Service Costs / (Gains)	(34,409)	1,442
Losses/(gains) on curtailments	356	13
Estimated Unfunded Benefits Paid	(1,971)	(849)
Estimated Benefits Paid	(9,646)	(9,031)
Balance at 31 March	**322,404**	**350,937**

Reconciliation of fair value of the scheme assets:	**2010/11 £000**	**2009/10 £000**
Opening Balance	241,678	177,015
Expected return on Assets	17,767	11,778
Contributions by Members	3,001	2,877
Contributions by the Employer	10,177	9,083
Contribution in respect of unfunded benefits	1,971	849
Actuarial gains/(losses)	(4,375)	49,956
Unfunded Benefits paid	(1,971)	(849)
Benefits paid	(9,646)	(9,031)
Balance at 31 March	**258,602**	**241,678**

Notes to the Financial Statements

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

Scheme History

	2010/11	2009/10	2008/09	2007/08	2006/07
	£000	£000	£000	£000	£000
Present value of liabilities	(322,404)	(350,936)	(219,691)	(233,398)	(260,371)
Fair Value of Assets	258,602	241,678	177,015	220,625	221,463
Surplus/(deficit)	**(63,802)**	**(109,258)**	**(42,676)**	**(12,773)**	**(38,908)**

The liabilities show the underlying commitments the Council has in the long term to pay retirement benefits. The total liability of £322.404 million has a substantial impact on the net worth of the Council as shown in the Balance Sheet, resulting in a net liability of £63.802 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 2008, the funding level was 85% and that a period of 20 years has been adopted in assessing the level of contribution required to fund that deficiency. The employers contribution in 2010/11 was 338% 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 2008.

The main assumptions used by the actuary have been:

	2010/11	2009/10
Long-term expected rate of return on assets in the scheme:		
Equity investments	7.5%	7.8%
Bonds	4.9%	5.0%
Property	5.5%	5.8%
Cash	4.6%	4.8%
Longevity at 65 for current pensions (Mortality):		
Men (years)	20.8	20.8
Woman (years)	24.1	24.1
Longevity at 65 for future pensions (Mortality):		
Men (years)	22.3	22.3
Woman (years)	25.7	25.7
Inflation / Pension Increase Rate	2.8%	3.8%
Salary Increase Rate	5.1%	5.3%
Expected Return on Assets	7.0%	7.3%
Discount Rate	5.5%	5.5%
Take up of options to convert Annual Pension into		
Retirement Lump Sum – Services to April 2009	50%	50%
Retirement Lump Sum - Services post April 2009	75%	75%

Notes to the Financial Statements

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

	31/03/2011	31/03/2010
Equity Investments	79%	79%
Bonds	8%	8%
Other Assets	13%	13%
	100%	**100%**

History of experience gains and losses

The actuarial gains identified as movements in the Pension Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets and liabilities at 31 March 2011.

	2010/11	2009/10	2008/09	2007/08	2006/07
	%	%	%	%	%
Differences between the expected and actual return on assets	(1.8)	(20.7)	(34.4)	(10.1)	0.6
Experience gains and losses on liabilities	5.4	0.1	3.6	0.1	0.2

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

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

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

39. Contingent Liability

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

40 Termination Benefits

During 2010/11 the Council reduced its workforce through a Management Review and a voluntary severance scheme. This incurred a liability of £2.512 million (2009/10 £0.036 million) comprising of redundancy payments of £0.907 million, Pension Fund strain costs of £1.528 million and payments in lieu of notice of £0.077 million.

Notes to the Financial Statements

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

There are some 24 trusts, bequests and community funds of varying size managed by the Council, each of which has specific objectives and conditions.

The main funds are:

	As at 31.03.11 £000	As at 31.03.10 £000
Dalkeith Common Good	17	22
Penicuik Common Good	2	4
Community Mining Funds	35	128
Other Funds	84	88
Total	**138**	**242**

The funds do not represent assets of the Council and are included in the Balance Sheet as creditors except the Community Mining Funds which are held in separate bank accounts.
Three of the bequests are registered charities. They are as follows:

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

The combined value at 31 March 2011 of these bequests is £5,820.12 (2009/10 £5,850.32). Details of movements during 2010/11 are shown below:

Name	Balance at 31 March 2010 £	Expenditure in 2010/11 £	Income in 2010/11 £	Balance at 31 March 2011 £
Sir Samuel Chisholm Bequest	1,234.73	67.48	105.29	1,272.54
Fraser Hogg Bequest	4,365.59	105.82	32.05	4,291.82
Macfie Hall Trust	253.88	0	1.88	255.76

Notes to the Financial Statements

42. Prior Period Adjustments and transition to International Financial Reporting Standards

The Council adopted International Financial Reporting Standards (IFRS) for the first time in its Financial Statements for the year ended 31st March 2011 (2010/11). The statements include restated Financial Statements for the year ended 31st March 2010 (2009/10). The Balance Sheet also contains comparatives for the year ended 31st March 2009 (2008/09).

The reconciliations below show movement in the Council's Balance Sheet and Income and Expenditure Account as required by IFRS1 – First time adoption of International Financial Reporting Standards, accompanied by explanatory notes on the principles adopted and the items that appear in the reconciliations.

The principal accounting changes arising for the period ended 31 March 2010, following introduction of IFRS, were in the following areas:

42.1 Comprehensive Income and Expenditure Account

	SORP 2009/10 Net Expenditure £000	Restatement IAS 16 £000	Restatement IAS 17 £000	Restatement IAS 19 £000	Restatement IAS 20 £000	IFRS 2009/10 Net Expenditure £000
Education Services	93,578	0	0	554	(2,525)	91,607
Social Work	41,922	0	0	267	45	42,234
Culture and Related Services	10,198	0	0	105	51	10,354
Roads and Transport Services	9,194	0	0	39	365	9,598
Police Services	7,946	0	0	0	0	7,946
Environment Services	8,413	0	0	72	(969)	7,516
Planning and Development Services	2,980	(36)	0	44	(982)	2,006
Fire Services	2,959	0	0	0	0	2,959
HRA	10,143	0	(23)	0	(2,051)	8,069
Other Housing Services	8,964	0	0	8	196	9,168
Corporate and Democratic Core	3,262	0	0	0	0	3,262
Central Services to the Public	12,284	336	0	38	(401)	12,257
Non-Distributable Costs	1,370	0	0	0	0	1,370
Cost of Services	**213,213**	**300**	**(23)**	**1,127**	**(6,271)**	**208,346**
Other Operating Expenditure	1,825	0	0	0	0	1,825
Financing and Investment Income	14,163	36	0	0	22	14,221
Taxation and non-specific grant income	(190,299)	0	0	0	0	(190,299)
(Surplus) or Deficit on Provision of Services	**38,902**	**336**	**(23)**	**1,127**	**(6,249)**	**34,093**
Surplus or deficit on revaluation of property, plant and equipment	(172,792)	0	0	0	0	(172,792)
Actuarial gains / losses on pension assets / liabilities	(853)	0	0	0	0	(853)
Other realised gains / losses	66,582	0	0	0	0	66,582
Total Other Comprehensive Income and Expenditure	**(107,063)**	**0**	**0**	**0**	**0**	**(107,063)**
Total Comprehensive Income and Expenditure	**(68,161)**	**336**	**(23)**	**1,127**	**(6,249)**	**(72,790)**

Notes to the Financial Statements

42.2 Balance Sheet as at 31 March 2009 - Restated

	SORP Balance at 31 March 2009 £000	IAS 16 £000	IAS 17 £000	IAS 19 £000	IAS 20 £000	IFRS Balance at 31 March 2009 £000
Property, Plant and Equipment	837,158	(658)	257	0	0	836,757
Intangible Assets	319	0	0	0	0	319
Assets held for Sale	0	658	0	0	0	658
Long Term Investments	962	0	0	0	0	962
Long Term Debtors	1,089	0	0	0	0	1,089
Long Term Assets	**839,528**	**0**	**257**	**0**	**0**	**839,785**
Short Term Investments	39,727	0	0	0	0	39,727
Inventories	646	0	0	0	0	646
Short Term Debtors	11,285	0	0	0	0	11,285
Cash and Cash Equivalents	132	0	0	0	0	132
Current Assets	**51,790**	**0**	**0**	**0**	**0**	**51,790**
Bank Overdraft	276	0	0	0	0	276
Short Term Borrowing	35,611	0	0	0	0	35,611
Short Term Creditors	28,150	0	0	5,988	(3,861)	30,277
Provisions	8,078	0	0	0	0	8,078
Grants Receipts in Advance	0	0	0	0	3,748	3,748
Current Liabilities	**72,115**	**0**	**0**	**5,988**	**(113)**	**77,990**
Long Term Borrowing	142,210	0	0	0	0	142,210
Other Long Term Liabilities	155,960	0	257	0	(50,726)	105,491
Long Term Liabilities	**298,170**	**0**	**257**	**0**	**(50,726)**	**247,701**
Net Assets	**521,033**	**0**	**0**	**(5,988)**	**50,839**	**565,884**
Usable Reserves	14,197	0	0	0	113	14,310
Unusable Reserves	506,836	0	0	(5,988)	50,726	551,574
Total Reserves	**521,033**	**0**	**0**	**(5,988)**	**50,839**	**565,884**

Notes to the Financial Statements

42.3 Balance Sheet as at 31 March 2010 Restated

	SORP Balance at 31 March 2010 £000	IAS 16 £000	IAS 17 £000	IAS 19 £000	IAS 20 £000	IFRS Balance at 31 March 2010 £000
Property, Plant and Equipment	988,492	(972)	218	0	0	987,738
Intangible Assets	417	0	0	0	0	417
Assets held for Sale	0	636	0	0	0	636
Long Term Investments	962	0	0	0	0	962
Long Term Debtors	1,378	0	0	0	0	1,378
Long Term Assets	**991,249**	**(336)**	**218**	**0**	**0**	**991,131**
Short Term Investments	10,051	0	0	0	0	10,051
Inventories	618	0	0	0	0	618
Short Term Debtors	13,514	0	0	0	0	13,514
Cash and Cash Equivalents	6,033	0	0	0	0	6,033
Current Assets	**30,216**	**0**	**0**	**0**	**0**	**30,216**
Bank Overdraft	1,609	0	0	0	0	1,609
Short Term Borrowing	39,782	0	0	0	0	39,782
Short Term Creditors	28,089	0	0	7,115	(6,499)	28,705
Provisions	5,062	0	0	0	0	5,062
Grants Receipts in Advance	0	0	0	0	5,628	5,628
Current Liabilities	**74,542**	**0**	**0**	**7,115**	**(871)**	**80,786**
Long Term Borrowing	131,280	0	0	0	0	131,280
Other Long Term Liabilities	226,449	0	195	0	(56,217)	170,427
Long Term Liabilities	**357,729**	**0**	**195**	**0**	**(56,217)**	**301,707**
Net Assets	**589,194**	**(336)**	**23**	**(7,115)**	**57,088**	**638,854**
Usable Reserves	20,643	0	0	0	871	21,514
Unusable Reserves	568,551	(336)	23	(7,115)	56,217	617,340
Total Reserves	**589,194**	**(336)**	**23**	**(7,115)**	**57,088**	**638,854**

42.4 Explanations of Restatements as a result of transition to IFRS

These are the Council's first financial statements prepared in accordance with International Financial Reporting Standards (IFRS). The date of transition to IFRS is 1 April 2009. The Council's IFRS accounting policies presented in Note 1 have been applied in preparing the financial statements for the year ended 31 March 2011, the comparative information and the opening statement of financial position at the date of transition.

The Council has applied the IFRS 1 first time adoption of International Reporting Standards in preparing these first IFRS compliant financial statements.

<u>IAS 16 – Property, Plant and Equipment</u>
IAS 16 prescribes the accounting treatment for property, plant and equipment. The changes between SORP and IFRS are a re-presentation of Council Houses, Other Land and Buildings, Vehicles Plant and Equipment, Infrastructure Assets, Community Assets and Assets under construction into one heading of Property, Plant and Equipment on the Balance Sheet.

The criteria for assessing an Investment Property has been revised and consequently the Council no longer holds any Investment Properties with them all being classified now as Property, Plant and Equipment. Depreciation has been charged on these from the date of their restatement.

Notes to the Financial Statements

The criteria for classifying an Asset available for sale also changed resulting in some re-classification of assets.

The impact of these changes are shown in the tables above.

IAS 17 – Leases
IAS 17 prescribes, for lessees and lessors, the appropriate accounting policies and disclosures to apply in relation to leases. A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. A finance lease transfers substantially all the risks and rewards incidental to the ownership of an asset. Title may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

The Council has reviewed all lease agreements and has identified one finance lease which is for Bonnyrigg District Heating Scheme. As this was treated as an operating lease under the SORP restatement has been made and is shown in the tables above.

IAS 19 – Employee Benefits (short-term accumulated absences)
Short-term accumulated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay. Under the code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the council is required to accrue for any annual leave and flexi-time earned but not taken at 31st March each year. Under the previous accounting arrangement, no such accrual was required.

The financial impact of this is quantified in the tables above.

IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance
The Code requires that grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a Government Grants Deferred Account on the Balance Sheet and recognised as income over the life of the assets which they were used to fund.

As a consequence, the balance on the Government Grants Deferred Account at 31st March has been transferred to the Capital Adjustment Account.

The Council have reviewed all unused revenue grants to ensure they are only treated as a creditor when there are specific conditions to the grant that require it to be repaid if certain conditions are not met. This has resulted in grant income being credited to the CIES which was held as a creditor under the code.

The financial impact of these changes is shown in the tables above.

Impact of restatement on Usable Reserves
The General Fund Balance at 31st March 2010 is £0.817 million more than that reported under SORP. This is made up of revenue grants that are now included in the General Fund Balance rather than as a creditor. They are earmarked for use in 2010/11.

43. Post Balance Sheet Events

There are no post balance sheet events.

Housing Revenue Account Income and Expenditure Account

For the year ended 31 March 2011

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

Restated 2009/10 £000		**2010/11 £000**	**per house per week £**
	Income		
15,259	Gross dwelling rents	16,705	48.87
390	Non dwelling rents	415	1.21
2,389	Other Income	810	2.37
18,038		**17,930**	**52.46**
	Expenditure		
6,213	Repairs and Maintenance	5,882	17.21
4,214	Supervision and Management	4,490	13.14
14,361	Depreciation of Non-Current Assets	13,576	39.72
0	Impairment of Non-Current Assets	49,376	144.46
1,282	Other Expenditure	1,569	4.59
37	Increase / (Decrease) in Bad Debt Provision	0	0.00
26,107		**74,893**	**219.11**
8,069	**Net Cost of HRA services per the whole council Comprehensive Income and Expenditure Account**	**56,963**	**166.69**
225	HRA share of Corporate and Democratic Core	225	0.66
8,294	**Net Cost of HRA Services**	**57,188**	**167.32**
	HRA share of the operating income and expenditure included in the whole council accounts		
1,450	Loss / (Gain) on sale of HRA fixed assets	2,336	6.83
2,373	Interest Payable and similar charges	3,292	9.63
(176)	Interest and Investment Income	(113)	(0.33)
0	Capital Grants Unapplied	673	1.97
242	Pensions Interest Cost and Expected Return on Pension Asset	19	0.06
12,183	**Deficit / (Surplus) for the year on the HRA Services**	**63,395**	**183.51**

Movement on the HRA Statement for Year ended 31 March 2011

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.

2009/10 £000		**2010/11 £000**	**per house per week**
12,183	Deficit for the year on the HRA Income & Expenditure Account	63,395	183.51
	Items included in the HRA Income & Expenditure Account but excluded from the movement on HRA balance for the year		
(1,450)	Gain/(loss) on sale of HRA fixed assets	(2,336)	(6.83)
(11,302)	Transfer to/(from) Capital Adjustment Account	(61,639)	(180.34)
(49)	HRA share of contributions to/from pension reserve	(130)	(0.38)
(618)	**(Surplus) or deficit for the year on the Housing Revenue Account Income and Expenditure Account**	**(710)**	**(4.04)**
(10,352)	Housing Revenue Account Balance brought forward	**(10,970)**	**(32.10)**
(10,970)	**Housing Revenue Account Balance carried forward**	**(11,680)**	**(36.14)**

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 2011 the Council had 6,573 houses (31 March 2009 6,511) which can be analysed as follows:

Type of Dwelling	2009/10	2010/11
	Number	Number
1 Bedroom	775	776
2 Bedroom	3,700	3,713
3 Bedroom	1,746	1,780
4 Bedroom	282	295
5 / 6 Bedroom	8	9
Total	**6,511**	**6,573**

3. Rent Arrears
At the end of the year rent arrears amounted to £1.701 million (2009/10 £1.641 million) for which a provision for bad and doubtful debts of £0.390 million (2009/10 £0.390 million) exists.

4. Void Properties
The total value of uncollectable void rents for main provision properties amounted to £0.327 million (2009/10 £0.480 million).This has been netted against rental income.

Council Tax Income Account

For the Year ended 31 March 2011

Councils raise taxes from residents by way of a property tax – the Council Tax – which is based on property values. Each dwelling house in a local 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.

2009/10 £000		**2010/11 £000**
42,423	Gross Council Tax levied and Contributions in Lieu	42,785
	Less :	
4,610	Discounts	4,710
1,127	Write-off of Uncollectable Debts and Allowances for Impairment	1,136
(69)	Council Tax Benefits (net of Government Grant)	(87)
36,755		**37,026**
(22)	Adjustments to previous years Community Charge and Council Tax	97
36,733	**Transfers to the General Fund**	**37,123**

Notes to the Council Tax Income Account

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

	Property Bands								
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Properties	1,009	12,245	10,210	4,275	4,252	2,477	1,664	163	36,295
Disabled relief	41	5	(13)	(2)	(16)	(2)	(13)	0	0
Less									
Exemptions	67	408	214	77	185	46	29	4	1,030
Discounts (25%)	152	1,432	865	288	210	83	49	5	3,084
Discounts (50%)	10	69	60	30	18	14	12	3	216
Effective properties	821	10,341	9,058	3,878	3,823	2,332	1,561	151	31,965
Ratio to band D	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9	
Band D equivalents	547	8,043	8,052	3,878	4,673	3,368	2,602	302	31,465
Contributions in lieu – Band D equivalents									206
Total									**31,671**
Provision for non payment									(950)
Council Tax Base									**30,721**

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

Band	**A**	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Numbers	821	10,341	9,058	3,878	3,823	2,332	1,561	151	31,965
£	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 2011

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.

2009/10 £000		2010/11 £000
28,202	Gross rates levied	30,425
	Less:	
6,470	Reliefs and other deductions	7,072
0	Interest paid	0
555	Write-offs of uncollectable debts and allowance for impairment	609
57	Adjustments to previous years	283
21,120	**Net Non Domestic Rate Income**	**22,461**
	Allocated:	
21,188	Contribution to national non-domestic rates pool	22,526
(68)	Midlothian Council	(65)
21,120		**22,461**

Notes

1. The amount distributed to Midlothian Council from the national non-domestic rate income pool in the year was £32.172 million (2009/10 £33.464 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 40.7p per £ (2009/10 48.1p per £) where the rateable value was less than or equal to £35,000 and 41.4p per £ (2009/10 48.5p per £) where the rateable value exceeded £35,000. Subject to eligibility, properties with a rateable value up to £18,000 can apply for relief.

3. Rateable Value as at the start of the year

	Number 2010/11	Number 2009/10	Rateable Value 2010/11 £000	Rateable Value 2009/10 £000
Shops, Offices and Other Commercial Subjects	1,596	1,589	40,612	31,990
Industrial and Freight Transport	838	825	15,314	14,391
Miscellaneous (Schools etc)	295	307	17,283	11,746
	2,729	**2,721**	**73,209**	**58,127**

Group Movement in Reserves Statement

	Total Usable Reserves £000	Total Unusable Reserves £000	**Total Council Reserves £000**	Council's share of subsidiaries and associates £000	**Total Group Reserves £000**
Opening Balances at 1 April 2009	**(14,310)**	**(551,574)**	**(565,884)**	**156,345**	**(409,539)**
Movement in Reserves during 2009/10					
Surplus or (deficit) on provision of services	34,093	0	**34,093**	7,378	**41,471**
Other Comprehensive Expenditure and Income	0	(107,060)	**(107,060)**	(4,823)	**(111,883)**
Total Comprehensive Expenditure and Income	**34,093**	**(107,060)**	**(72,967)**	**2,555**	**(70,412)**
Adjustments between accounting basis and funding basis under regulations (note 4)	**(41,297)**	**41,297**	**0**	**0**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(7,204)**	**(65,763)**	**(72,967)**	**2,555**	**(70,412)**
Transfers to / from Other Statutory Reserves	0	(3)	**(3)**	3	**0**
Increase / Decrease in 2009/10	**(7,204)**	**(65,766)**	**(72,970)**	**2,558**	**(70,412)**
Balance at 31 March 2010	**(21,514)**	**(617,340)**	**(638,854)**	**158,903**	**(479,951)**
Movement in Reserves during 2010/11					
Surplus or (deficit) on provision of services	30,854		**30,854**	(10,313)	20,541
Other Comprehensive Expenditure and Income		207,900	**207,900**	(6,221)	201,679
Total Comprehensive Expenditure and Income	**30,854**	**207,900**	**238,754**	**(16,534)**	**222,220**
Adjustments between accounting basis and funding basis under regulations (note 4)	**(44,907)**	**44,907**	**0**	**0**	**0**
Net increase / decrease before transfers to Other Statutory Reserves	**(14,053)**	**252,807**	**238,754**	**(16,534)**	**222,220**
Transfers to / from Other Statutory Reserves	0	0	**0**	(3)	(3)
Increase / Decrease in 2010/11	**(14,053)**	**252,807**	**238,754**	**(16,534)**	**222,220**
Balance at 31 March 2011	**(35,567)**	**(364,533)**	**(400,100)**	**142,366**	**(257,734)**

Group Comprehensive Income and Expenditure Statement

For the Year ended 31 March 2011

2009/10 Expenditure £000 Restated	2009/10 Income £000 Restated	2009/10 Net Expenditure £000 Restated	Continuing Operations	Notes	2010/11 Gross Expenditure £000	2010/11 Gross Income £000	2010/11 Net Expenditure £000
98,479	6,872	91,607	Education Services		90,937	2,983	87,954
52,873	10,639	42,234	Social Work		55,644	10,866	44,778
15,926	5,572	10,354	Culture and Related Services		14,185	3,836	10,349
10,667	1,069	9,598	Roads and Transport Services		10,407	246	10,161
8,291	345	7,946	Police Services		7,061	315	6,746
10,179	2,663	7,516	Environmental Services		9,440	1,543	7,897
6,708	4,702	2,006	Planning and Development Services		8,698	3,300	5,398
2,959	0	2,959	Fire Services		2,432	0	2,432
26,586	18,517	8,069	Housing Revenue Account		74,893	17,930	56,963
30,492	21,324	9,168	Other Housing Services		32,215	25,223	6,992
4,075	813	3,262	Corporate & Democratic Core		4,450	882	3,568
13,775	1,518	12,257	Central Services to the Public		1,521	985	536
1,370	0	1,370	Non-distributable Costs		(33,500)	0	(33,500)
282,380	**74,034**	**208,346**	**Deficit on Continuing Operations**		**278,383**	**68,109**	**210,274**
		1,820	Other Operating Expenditure				819
		21,930	Financing and Investment Income and Expenditure	6,*4*			20,956
		(190,299)	Taxation and Non-Specific Grant Income	7			(192,913)
		41,797	**(Surplus) or Deficit on Provision of Services**	*3*			**39,136**
		(326)	Associates and Joint Ventures accounted for on an equity basis				(18,595)
		41,471	**Group (Surplus) or Deficit**				**20,541**
		(173,304)	(Surplus) or Deficit on revaluation of non current assets	*5*			218,839
		118,548	Actuarial (gains) / losses on pension assets / liabilities	3,4,*5*			(16,258)
		(850)	Other (Gains) / Losses	*5*			(902)
		(55,606)	**Other Comprehensive Income and Expenditure**				**201,679**
		(14,135)	**Total Comprehensive Income and Expenditure**				**222,220**

Notes in *italics* relate to group notes. Others relate to single entity.

Group Balance Sheet as at 31 March 2011

31st March 2010 £000 Restated		Notes	31st March 2011 £000
987,738	Property, Plant and Equipment	9	703,595
417	Intangible Assets	10	444
636	Assets held for Sale	11	2,079
962	Long Term Investments	13	962
1,372	Long Term Debtors	15	7,076
(159,140)	Investments in associates and joint ventures		(142,484)
831,985	**Long Term Assets**		**571,672**
10,062	Short Term Investments	12	5,059
618	Inventories	14	663
13,515	Short Term Debtors	15	9,964
6,161	Cash and Cash Equivalents	16	25,800
30,356	**Current Assets**		**41,486**
1,609	Bank Overdraft	16	68
39,782	Short Term Borrowing	12	48,042
28,602	Short Term Creditors	17	29,643
5,062	Provisions	18,19	4,322
5,628	Grants Receipts in Advance	32	7,126
80,683	**Current Liabilities**		**89,201**
131,280	Long Term Borrowing	12	141,252
170,427	Other Long Term Liabilities		124,971
301,707	**Long Term Liabilities**		**266,223**
479,951	**Net Assets**		**257,734**
21,514	Usable Reserves	4,21	35,567
617,340	Unusable Reserves	4,22	364,533
(158,903)	Share of Associates Reserves		(142,366)
479,951	**Group Reserves**		**257,734**

The unaudited accounts were issued on 24 June 2011 and the audited accounts were authorised for issue on 29 September 2011.

Signed:

Gary Fairley
Head of Finance and Human Resources
29 September 2011

Group Cash Flow Statement

For the Year ended 31 March 2011

The Group Cash Flow Statement includes the cash flows of the Council (and its Common Good Funds & sundry trusts). Under accounting regulations, cash receipts and payments external to the Group that flow to and from the Council and subsidiaries only (i.e. full group members) must be included. Cash flows to and from the Council to its associates are already included within the cash flow statement of the Council.

Restated 2009/10 £000		**2010/11 £000**
(41,471)	**Net surplus or deficit on the provision of services**	**(20,541)**
92,741	Adjustments to surplus or deficit on the provision of services for non cash movements	72,591
(50,745)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(29,797)
525	**Net Cash Flows from Operating Activities**	**22,253**
10,587	Net cash flows from investing activities	(17,098)
(6,416)	Net cash flows from financing activities	16,025
4,696	**Net Increase or Decrease in Cash and Cash Equivalents**	**21,180**
(144)	Cash and cash equivalents at the beginning of the reporting year	4,552
4,552	Cash and cash equivalents at the end of the reporting year	25,732
4,696	**Net (Increase)/Decrease in Cash**	**21,180**

Notes to the Group Financial Statements

1. Group Accounting Policies

1.1 Introduction
The Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 based on International Financial Reporting Standards requires local authorities to consider their interests in all types of entity. This includes other local authorities or similar bodies defined in section 106 of the Local Government (Scotland) Act 1973 e.g. statutory bodies such as Police, Fire and Valuation Boards. Authorities are required to prepare a full set of group accounts in addition to their own Council's accounts where they have a material interest in such entities.

1.2. The Group
The Council has an interest in one wholly owned subsidiary company. It considers three Joint Boards as Associates.

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

The accounts of PS826 Ltd are published separately and are available from the Head of Finance and Human Resources, Midlothian House, Dalkeith EH22 1DN.

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

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

For all of the entities, the Council has a share in a net liability. The negative balances on Police, Fire, & Valuation Joint Boards arise from the inclusion of liabilities related to the defined benefit pension schemes as required by IAS 19 (i.e. their pension liability to pay retirement benefits in the long term).

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

1.4. Disclosure of Differences with Main Statement of Accounting Policies
The financial statements in the Group Accounts of Midlothian Council are prepared in accordance with the accounting policies set out in note 1 to the Financial Statements with the additions and exceptions shown as follows.

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

Notes to the Group Financial Statements

2. Financial Impact of Consolidation
The effect of inclusion of the subsidiary and associates on the group balance sheet is to decrease the net assets and total equity by £142.366 million, the principal reason for the change being the Council's share of the deficit on the associates' Pension Reserves.

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

3. Reconciliation of the Single Entity Deficit for the year to the Group Deficit

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

2009/10 Net Expenditure Restated £000		2010/11 Net Expenditure £000
34,093	**(Surplus) / Deficit on the Council's single entity Income and Expenditure Account for the year**	30,854
1	Subsidiary and associate dividend income and any other distributions from group entities included in the single entity surplus or deficit on the Income and Expenditure Account	0
	(Surplus) or deficit arising from other entities included in the group accounts analysed into the amounts attributable to:	
3	- Subsidiaries and Joint Ventures	1
7,374	- Associates	(10,314)
41,471	**(Surplus) / Deficit for the Year on the Group Income and Expenditure Account**	**20,541**

4. Financing and Investment Income and Expenditure attributable to Group Entities

	2010/11 £000 Single Entity	2010/11 £000 Group	2010/11 £000 Total	2009/10 £000 Single Entity	2009/10 £000 Group	2009/10 £000 Total
Interest Received and similar income	(829)	(63)	**(892)**	(1,099)	(62)	**(1,161)**
Interest Payable and Similar Charges	13,300	155	**13,455**	12,406	169	**12,575**
(Surplus) / Deficit on Trading Operations	(70)	2	**(68)**	(452)	2	**(450)**
Pension Interest cost and Expected returns on pension assets	269	8,192	**8,461**	3,366	7,600	**10,966**
Total	**12,670**	**8,286**	**20,956**	**14,221**	**7,709**	**21,930**

Notes to the Group Financial Statements

5. Other Comprehensive Income and Expenditure

	2010/11 £000 Single Entity	2010/11 £000 Group	2010/11 £000 Total	2009/10 £000 Single Entity	2009/10 £000 Group	2009/10 £000 Total
(Surplus) on revaluation of non current assets	218,354	485	**218,839**	(172,790)	(514)	**(173,304)**
Actuarial (gains) / losses on pension assets / liabilities	(9,591)	(6,667)	**(16,258)**	66,582	51,966	**118,548**
Other (gains) / losses	(863)	(39)	**(902)**	(852)	2	**(850)**
Other Comprehensive Income and Expenditure	**207,900**	**(6,221)**	**(201,679)**	**(107,060)**	**51,454**	**(55,606)**

Independent Auditor's Report

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

I certify that I have audited the financial statements of Midlothian Council and its group for the year ended 31 March 2011 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Account, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, the Non-Domestic Rate 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 2010/11 (the 2010/11 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 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Financial Officer and auditor

As explained more fully in the Statement of Responsibilities set out on page 6, the Head of Finance and Human Resources is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My 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 me 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 Midlothian Council and its group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance and Human Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Independent Auditor's Report

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2010/11 Code of the state of the affairs of Midlothian Council and its group as at 31 March 2011 and of the income and expenditure of Midlothian Council and its group 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 2010/11 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

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

Matters on which I am required to report by exception

I am required to report to you if, in my 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
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Gillian Woolman, FCA

Assistant Director – Audit Services

Audit Scotland

Osborne House

1/5 Osborne Terrace

Edinburgh

EH12 5HG 29 September 2011

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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