West Lothian Council

Annual Accounts

Year ended 31 March 2019

West Lothian Council

CONTENTS

Accounts of West Lothian Council for the year ended 31 March 2019, prepared pursuant to Section 105 of the Local Government (Scotland) Act 1973 and in accordance with the terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Accounts

Annual Accounts (Continued)

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the members of West Lothian Council and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual accounts of West Lothian Council and its group for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Housing Revenue Account Disclosures, the Council Tax Account, and the Non-domestic Rate Account, and notes to the financial statements, including a summary of significant accounting policies. 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 2018/19 (the 2018/19 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the 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 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 26th July 2016. The period of total uninterrupted appointment is three years. We are independent of the Council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the Council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance and Property Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

We have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our conclusions thereon.

Responsibilities of the Head of Finance and Property Services and the Audit Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance and Property Services is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance and Property Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Finance and Property Services is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Audit Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved. We therefore design and perform audit procedures which respond to the assessed risks of material misstatement due to fraud.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other information in the annual accounts

The Head of Finance and Property Services is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements, the audited part of the Remuneration Report, and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with our audit of the financial statements, our responsibility is to read all the other information in the annual accounts and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In our opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have the following to report in respect of these matters.

Local authorities have a prescribed financial objective under section 10 of the Local Government in Scotland Act 2003 to conduct their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2019 in respect of their significant trading operation, Economic Development Properties.

We have nothing to report in respect of the other matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

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 120 of the Code of Audit Practice approved by the Accounts Commission, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Stephen Reid, for and on behalf of Ernst & Young LLP
Ernst & Young LLP
Atria One,
144 Morrison Street,
Edinburgh, EH3 8EX
27 September 2019

MANAGEMENT COMMENTARY

1. The Council

West Lothian Council lies at the heart of central Scotland midway between the cities of Glasgow and Edinburgh. It sits astride the M8 and M9 motorways and contains a mixture of small rural and urban communities, including towns such as Livingston, Broxburn, Bathgate, Whitburn, Armadale and Linlithgow. It borders the City of Edinburgh, Falkirk, North Lanarkshire, South Lanarkshire and the Scottish Borders.

The council provides a diverse range of essential services, such as:

- Education
- Social Care Services
- Housing
- Environmental Health
- Planning
- Economic Development
- Waste Management
- Highways
- Transport

The quality and effectiveness of these services relies on the commitment, dedication and ability of the council's 6,679 (Full Time Equivalent) employees, who on a daily basis make a difference to the lives of our customers.

West Lothian has a total population of over 181,000, which accounts for 3.3% of the total population of Scotland. Located in the central belt of Scotland, West Lothian is less than 30 miles from Edinburgh and Glasgow which makes it an attractive investment location for many businesses. Currently there are over 78,000 local jobs across a diverse range of sectors including health, construction, retail, engineering and technology.

With a growing younger population and a large increase in the older population, West Lothian is fairly unique in Scotland. The latest estimates are that West Lothian's population will grow to over 203,000 by 2041. While West Lothian has one of the fastest growing and youngest populations in Scotland it is also forecast to have the highest population growth in the over 75 age group in Scotland (120% increase by 2041). Growth in the population of West Lothian will mean more demand for all services including waste collection, schools and support for older and vulnerable people in our communities.

The council is proud of its school estate which is one of the best in Scotland in terms of condition and suitability. The council has, over a number of years, invested considerable sums to ensure school pupils have the best possible environment to learn and develop. The ten year capital investment programme approved in February 2018, and updated in February 2019, supports the delivery of essential council services and will invest over £210 million in maintaining and improving the school estate over the period 2018/19 to 2027/28.

The opening of the new West Calder High School in August 2018 provided one of the most modern learning environments of any secondary school in Scotland and also provides the community of West Calder with local access to facilities including a swimming pool and sports and leisure accommodation.

The council is committed to a plan for 3,000 new homes for West Lothian before 2022. This will include the building and purchasing of new affordable housing supply. Expenditure on the New Build Programme amounted to £24.1 million in 2018/19. There were 360 new build completions during the financial year across West Lothian, with sites completed at Redhouse in Blackburn, Lammermuir in Livingston, Mayfield in Armadale, Eastfield in Fauldhouse, Calderwood in East Calder and Winchburgh. There were further completions at Kirkhill in Broxburn and the first handovers at Deans South in Livingston. Construction works on the remaining sites are progressing across a range of locations, with further handovers expected in Livingston, Broxburn, Bathgate and Drumshoreland in the coming months. A total of 73 houses were purchased through the Open Market Acquisition Scheme, with additional Scottish Government funding increasing the planned number of purchases.

The Housing Capital Programme includes planned expenditure to support both the new build programme and continued investment in housing infrastructure to ensure that homes are suitable for 21st century living.

1. The Council (Continued)

The council is committed to partnership working as a key to improving the quality of life for local people. Providing seamless services is at the heart of the council's ethos and this can clearly be demonstrated by an active Community Planning Partnership and other partnership arrangements such as the West Lothian Community Safety Unit Partnership with Police Scotland.

The Public Bodies (Joint Working) (Scotland) Act 2014 established the framework for the integration of health and social care in Scotland. A health and social care partnership in the form of the West Lothian Integration Joint Board (IJB) is in place in West Lothian. The arrangements require the delegation of relevant functions and resources by the council and NHS Lothian to the West Lothian IJB. The level of resources associated with council functions delegated to the IJB in 2018/19 was £63.8 million (2017/18 £64.5 million).

The central location, infrastructure and range of industrial and commercial properties, along with the support of the council's Enterprise Centre, property and business advisors, ensure that new businesses are attracted to invest and locate in the area and that existing businesses have opportunities to expand.

West Lothian has three country parks, Almondell and Calderwood, Beecraigs and Polkemmet. The area boasts a range of outdoor activities from golf courses and horse-riding to a renowned skate park, while the council's partners West Lothian Leisure Ltd. provide leisure, arts, sports and swimming facilities across the area.

2. Corporate Strategy

The Corporate Plan sets West Lothian Council's strategic direction and identifies our priorities for the period to 2022/23. These priorities are the focus for all council services, as the council, its partners and local communities work together to deliver better services for West Lothian.

The most recent performance results confirm that the council continued to perform well in key priority areas, such as educational attainment, housing and tenancy management and mitigating the impact of poverty in West Lothian.

The council's Corporate Plan can be accessed using the following link
https://www.westlothian.gov.uk/media/19574/West-Lothian-Council-Corporate-Plan-2018---2023/pdf/West_Lothian_Council_Corporate_Plan_2018-2023.pdf

The council's overall aim is to improve the quality of life for people in West Lothian. The Corporate Plan contains eight key priorities that aim to make a lasting and sustainable impact on the local area and improve the lives of residents in West Lothian. This reflects the public consultation exercise (Transforming Your Council) undertaken in autumn 2017. The TYC consultation focused on three key areas – taxation, priorities and areas for budget savings. The consultation received over 45,000 comments that helped shape and inform the corporate and financial plans. Feedback received showed strong support for the council's priorities shown below:

Improving attainment and positive destinations for school children	Delivering positive outcomes and early interventions for early years
Minimising poverty, the cycle of deprivation and promoting equality	Improving the quality of life for older people
Improving the employment position in West Lothian	Delivering positive outcomes on health
Reducing crime and improving community safety	Protecting the built and natural environment

The council has an integrated set of strategies designed to support the delivery of the council's priorities and also to contribute to the Strategic Outcomes of the West Lothian Community Planning Partnership.

2. Corporate Strategy (Continued)

Corporate Strategies support the delivery of the Corporate Plan priorities by achieving specific, linked outcomes. These strategies capture cross-cutting activity that will affect all, or a significant proportion of, council services within the corporate planning period.

The council produces a Factfile on an annual basis which provides an essential guide to the council's performance in relation to the eight priorities. The most recent publication can be found on the council's website: https://www.westlothian.gov.uk/factfile.

3. Budget Strategy and Budget Setting

On 19 February 2019, West Lothian Council agreed a medium term revenue financial plan for the period 2019/20 to 2022/23. This ensured that the council complied with Audit Scotland, CIPFA and the Accounts Commission best practice which states that public bodies should focus on their medium to long term financial sustainability through having a financial strategy covering a minimum of five years, supported by detailed plans covering a minimum of three years. Incorporating the decision of the Council Executive, budget savings of £46.7 million were agreed by Council, leaving a balance of £4.4 million to be identified to cover the anticipated four year budget gap of £51.1 million. The approved savings cover all service areas and include saving measures such as service redesign, integration and modernisation, channel shift and digital transformation, income and concessions, partnership working, revised delivery models and service standards, empowering communities and reducing facilities, revised assessment and eligibility for care, introduction of a contributions policy for care and a revised scheme of devolved school management. Officers continue to monitor announcements and other information to review and refine currently agreed budget assumptions.

The annual general services and housing revenue budgets form part of the council's integrated approach to financial strategy, corporate planning, delivery of outcomes and performance monitoring. The activity budget links the council's activities, resources and outcomes and is a core element of the council's financial strategy and annual management plans. The 2019/20 activity budget is published on the council's intranet. The council's budget setting process is subject to statutory, regulatory and governance requirements. The Local Government Finance Act 1992 section 93(2) requires councils to formally agree council tax levels before 11 March each year, and the Housing (Scotland) Act 1987 requires the housing budget and rent increases to be reported to Council each year for approval.

The approved long term general services capital programme supports the delivery of the council's eight Corporate Plan priorities. The programme also takes into consideration comments received during budget consultations where there was support for the effective and efficient management of our assets and reducing energy use. It is important that resources are prioritised on an ongoing basis to ensure investment has the maximum impact on the core assets necessary to sustain existing service delivery. A five year housing capital strategy and ten year general services capital investment strategy was approved by Council on 13 February 2018, along with the Corporate Asset Management Strategy on 19 March 2019. These financial investment plans were updated on 19 February 2019.

The Prudential Code requires councils to approve, on an annual basis, a defined set of prudential indicators, covering both general fund and housing capital investment, at the same council meeting that approves the revenue budget for the forthcoming year. In December 2017, CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code. The revisions have particularly focused on non-treasury investments, the requirement to prepare a capital strategy and an extension of the specific role of the Section 95 Officer in respect of both the capital strategy and investment in non-financial assets. The council's capital strategy for 2019/20 to 2027/28 was approved by full council on 19 March 2019. It outlines the principles and framework that shape the capital investment programmes to positively contribute to the achievement of the council's eight priorities, as well as setting out the outcomes and activities to be undertaken to implement the strategy, the performance indicators that will be used to monitor delivery and the governance and monitoring arrangements. The outcomes will be monitored by the Capital Asset Management Board and reported to the Corporate Management Team, Partnership and Resources PDSP and Council Executive on an annual basis

The key objective of the Prudential Code is to ensure that the capital investment plans are affordable, sustainable and prudent in the long term. The Code's prudential indicators are designed to support and record local decision making, which require to be approved and monitored by the Council. In doing so, the council is fulfilling its duty to ensure that spending plans are affordable, prudent and sustainable and also confirming that the treasury management function operates in accordance with the requirements of the CIPFA Treasury Management in the Public Services Code of Practice. It is assessed that the council's revenue, capital and treasury financial plans are in compliance with the Prudential Code.

In line with the council's integrated approach to corporate and financial planning, the 2018/19 budgets for general services revenue, the housing revenue account (HRA), the general services capital programme and the housing capital programme, along with the 2018/19 treasury management plan, were approved by full Council on 19 February 2019.

3. Budget Strategy and Budget Setting (Continued)

The council has a Corporate Transformation Programme Team (CTPT) in place to support the implementation of the council's corporate and financial plans through ensuring delivery of service changes and budget saving measures. The team report to a Depute Chief Executive and are focused on facilitating transformational change throughout the council, whilst working with enabler services to ensure the council continues to have a balanced budget over the medium to long term. The performance of the team is assessed through the successful completion of saving projects and the implementation of agreed budget saving measures. As a service unit the team will also become subject to the council's internal self-assessment framework – West Lothian Assessment Model.

The CTPT consists of experienced employees and managers from throughout the council who bring a wealth of knowledge, experience and ideas of how to modernise the council. Moving forward it is important that the council builds internal capacity to support ongoing modernisation reflecting the challenges facing local government.

The CTPT helped support the development, approval and implementation of a number of significant and complex projects during the first year of the approved five year financial plan. The focus was on supporting heads of service to develop plans for savings agreed in the first three years however looking ahead the focus will move to developing the remaining projects and helping to support services as they implement and deliver agreed saving measures in the medium term. A key aspect of the CTPT will become the continued research and feasibility of future transformation opportunities and initiatives, particularly potential transformation suggestions for the period beyond 2023/24. They will undertake scanning and benchmarking exercises to identify potential opportunities for change in areas such as, but not limited to, charging, commercial management, volunteers and effective and efficient use of assets.

4. Performance Overview

West Lothian Council has a strong approach to performance management, with clear standards for reporting meaningful performance information to different stakeholders. This approach provides a range of management and public data about our corporate and service performance and critically, has a performance framework, aligned to our eight priorities (in the Corporate Plan), that tracks the measurable impact of council services and investment in the agreed outcomes for West Lothian.

The performance management approach is comprehensive and consistently applied throughout all services. Key principles help identify the measures of performance that will inform decision making and operational planning and support evaluations of the relative value of the services we provide. A clear performance framework requires a balanced set of indicators for services and processes that track the overall impact and quality of services through measures of efficiency, effectiveness and satisfaction with the service. Moreover, the performance management approach defines robust tracking and monitoring processes to manage performance effectively whilst also supporting target setting and benchmarking that enables timely, appropriate interventions.

A range of information is published on corporate and council service performance:

http://www.westlothian.gov.uk/article/6283/Serviceand-Public-Performance

and on comparative performance:

http://www.westlothian.gov.uk/benchmarking

The council has operated a cyclical corporate programme of self-assessment since 2003/04 to evaluate achievement in services and support improvement across the organisation. There are two recognised programmes of self-assessment and both are based on the same framework: The European Foundation for Quality Management. Our schools use Validated Self Evaluation (VSE) and all other services use the West Lothian Assessment Model (WLAM). The results of the WLAM process are reported to the Performance Committee and the results of the VSE are reported to the Education (Quality Assurance) Committee. The papers and agendas for these committees are available on the council's COINS system.

External scrutiny is also used to improve service performance and challenge practice against the best in class in the public, private and third sectors. The council retained Customer Service Excellence (CSE) following external assessment in 2018/19. The council was the first Scottish local authority to be assessed by EFQM at international level and were highly commended at the EFQM Global Excellence Awards 2018/19. Following the assessment the council is now recognised in the EFQM Global Excellence Index as a Gold Leading Organisation for Excellence in the Public sector and was Highly Commended in Adding Value for Customers.

4. Performance Overview (Continued)

A range of performance information is published on all council services, this includes:

- **Customer satisfaction with the service:**

  We consult with customers on the quality of services that they receive from the council and this information is used to identify ways to improve our services. Seven consistent indicators of customer satisfaction are measured by every service and analysed and compared to demonstrate that the council is providing high quality customer-focused services to customers. Our consultation approaches and customer results are also validated and improved through assessment processes such as; the self-assessment programmes, EFQM and Customer Service Excellence assessment.

- **How we perform against service standards:**

  Service standards are the promises that the council makes to our customers about the quality of the service that we will deliver. The standards set out what customers accessing our services can expect regarding customer service, timeliness and overall quality. We monitor our performance against the standards with customer satisfaction results and the measurable aspects of service provision, such as time taken to deliver services and the number of complaints received or upheld. Telling people how our services are performing is important. It helps the council to demonstrate that we are open and honest with the public and that we are working to improve the value and impact of our services for the people living, working and learning in West Lothian.

- **The efficiency of the service:**

  The council has a responsibility to achieve value for money and report our performance to the public, explaining how efficiently we deliver services and how this compares to others. Efficiency indicators are in place to help measure the value of our services and these will generally focus on how efficiently services and processes are delivered. This can be calculated by what goes into a process (e.g. inputs such as cost, staff and other resources) and the output of that process, including any waste or repeat work, amount of resources (time, cost, people, etc.). For comparative purposes, there are also indicators tracking the unit cost of services and processes or the total cost of the service based on population or users.

  There are long and short-term measures of performance that indicate how services and processes contribute to council priorities. These are aligned with the council's key corporate strategies and plans and ensure that the key services and processes of the council are measured, monitored, reported and improved.

  Benchmarking is an improvement process that allows West Lothian Council to compare our performance with other organisations, such as other Scottish Local Authorities. Benchmarking is used to identify how we are doing and what we can learn from the high performance and good practice of others. Performance management is the way that West Lothian Council measures achievement in key activities and processes. It enables the council to track the progress made in achieving outcomes and priorities and to demonstrate that services are delivered efficiently and effectively.

- **The impact of the service:**

  The council has set challenging outcomes and priorities for West Lothian with our Community Planning Partners. Services' contribution to achieving those outcomes and the corporate priorities is determined through measurement of the key activities and processes that they deliver. The outcomes a service achieves are assessed through a set of measures developed in line with the council's performance framework. Service performance measures demonstrate performance across a range of areas including customer satisfaction, quality of services, efficiency of services and effectiveness of key processes.

  In 2018/19 the council continued to perform well in key priority areas for West Lothian. This included; improving attainment and positive destinations, minimising poverty through effective housing and tenancy management and welfare support for the most deprived in our community and delivering high quality and technology-enabled personalised care at home for older people.

  The council will continue to target improvement in performance service processes and waiting times in customer services. We will target reductions in the cost of providing a range of services through transformation and digitisation activities.

5. Financial Performance Review

The financial performance review outlines the key financial issues affecting the council during the year and the overall financial position of the council.

5.1 Financial Ratios

The following ratios assist evaluation of the council's financial sustainability and affordability of financial plans.

Council Tax	**2018/19**	**2017/18**	**Notes on Ratios**
In-year collection rate Target for year	96.4% 96.3%	96.2% 95.8%	This shows the % of council tax collected during the financial year that relates to bills issued for that year. It does not include collection of funding relating to previous financial years.
Council tax income as a percentage of overall funding	20.3%	19.4%	This shows the proportion of total funding that is derived from council tax. The percentage increased in 2018/19 as a result of increased council tax income arising from the Scottish Government's rebanding of E to H houses.
Debt and Borrowing – Prudence			
Capital Financing Requirement (£'000)	722,712	681,977	The capital financing requirement represents the underlying need to borrow to fund expenditure on assets. The council's borrowing requirement increased in 2018/19 as the council continues to invest in its assets, and in particular building new council houses. An element of the General Services and Housing Capital Programmes are funded by borrowing.
Debt and Borrowing – Affordability			
Financing costs to net revenue stream – General Fund	7.1%	7.0%	These ratios show the proportion of total revenue funding that is used to meet financing costs. The ratios exclude any voluntary repayments of debt made during the year. For General Fund the percentage increased as the revenue budget grew less than in previous years meaning that the annual increases in servicing debt became a higher percentage of the total revenue stream. For HRA the percentage increased to reflect the substantial investment being made in new build council houses. These percentages are deemed to be affordable as outlined in the 2018/19 treasury plan and approved indicators.
Financing costs to net revenue stream – HRA	29.5%	27.6%	
Impact of capital investment on council tax (£'000)	236,203	212,358	These ratios show incremental impact of financing costs (the increase in financing costs from the previous financial year) as a percentage of council tax, in respect of costs payable through the General Fund and house rents for the HRA. The council's financing costs have increased reflecting the borrowing undertaken to fund the council's capital investment programme. The increase was in line with treasury forecasts and was anticipated based on the council continuing to invest in assets.
Impact of capital investment on house rents (£'000)	486,509	469,619	

5.2 Financial Outturn

Net expenditure on General Services is met from government grants and council tax. In 2018/19 government grants accounted for 79.7% (80.6% 2017/18) of the council's external funding with the remaining 20.3% (19.4% 2017/18) from council tax. The in-year collection rate for council tax in 2018/19 was 96.4% (96.2% 2017/18).

In 2018/19 the council incurred net expenditure of £511.5 million (£469.9 million 2017/18) against a budget of £512.1 million (£473.8 million 2017/18), utilising 99.9% (99.2% 2017/18) of available budget.

The Expenditure and Funding Analysis (EFA), Note 5 on page 46, shows how the annual net expenditure is used, how it is funded from resources and how expenditure is allocated for decision making purposes between the council's services.

The figures in the first column of the EFA detail the financial position before the application of accounting entries such as depreciation, pensions and accumulating absences in line with the council's monitoring procedures throughout the year.

As shown in the EFA, the General Fund recorded a net deficit for the year of £6.2 million. This was made up as follows:-

Service Expenditure	**2018/19 Budget £'000**	**2018/19 Actual £'000**	**Variance £'000**
Education, Planning, Economic Development and Regeneration			
Schools, Education Support	231,747	231,522	(225)
Planning, Economic Development and Regeneration	6,572	6,282	(290)
Corporate, Operational and Housing			
Operational Services	73,830	76,742	2,912
Housing, Customer and Building	7,681	9,136	1,455
Corporate Services	18,526	18,232	(294)
Social Policy			
IJB – Adult and Elderly Services	64,629	63,833	(796)
Non- IJB – Children's Services	33,596	32,436	(1,160)
Chief Executive, Finance and Property	44,358	43,907	(451)
Joint Boards	1,128	1,128	-
NET SERVICE EXPENDITURE	**482,067**	**483,218**	**1,151**
Non-Service Expenditure			
Pensions, NDR Relief and Benefit Payments	30,016	28,320	(1,696)
TOTAL EXPENDITURE	**512,083**	**511,538**	**(545)**
FUNDING			
Scottish Government Grant	(308,207)	(308,207)	-
Council Tax	(78,509)	(78,337)	172
TOTAL FUNDING	**(386,716)**	**(386,544)**	**172**
NET OUTTURN POSITION	**125,367**	**124,994**	**(373)**
Expenditure Funded from Committed General Fund Balance	-	6,616	6,616
Deficit for the year	**125,367**	**131,610**	**6,243**

5.2 **Financial Outturn (Continued)**

The 2018/19 net service budget overspend was £1.2 million. This was largely due to recurring pressures within Operational Services and Housing, Customer and Building Services which were offset by one-off underspends in other services areas, in particular Social Policy. The main areas of variance in 2018/19 were as follows:

- School transport contracts overspent by £1.2 million reflecting demand for this type of transport and contractual costs increasing above budgeted levels. Additional one-off resource has been provided in 2019/20 to largely mitigate pressures while management action progresses to reduce expenditure on an ongoing basis;
- The cost of homelessness exceeded the budget by £1.4 million due to demand for bed and breakfast accommodation. Actions were agreed and implemented during 2018/19 to mitigate some of the pressure and further actions have been agreed for future years. Additional one-off resource has been provided in 2019/20 to largely mitigate pressures while management action progresses to reduce expenditure;
- A one-off underspend of £0.4 million in winter maintenance due to the mild weather experienced in 2018/19;
- Social Policy had a one-off underspend of £2.0 million. This was largely due to a shortfall in the availability in care hours within external providers for adults and older people and early delivery of future year's savings.

Areas with recurring pressures and key demand led areas of the budget will continue to be closely monitored during 2019/20. Overspend risks will be highlighted as part of the established monitoring process to ensure action is taken to mitigate pressures.

The following table reconciles the outturn report to column 1 of Note 5 Expenditure and Funding Analysis (EFA)

	Outturn Report £'000	**Depreciation £'000**	**Pensions £'000**	**Employee Statutory Adjustment £'000**	**EFA Column 1 Note 5 £'000**
Net Cost of Services	511,538	(114,670)	(36,917)	(3,858)	356,093
Other Income and Expenditure	(505,295)	114,670	36,917	3,858	(349,850)
Deficit on Provision of Services	**6,243**	**-**	**-**	**-**	**6,243**

The net deficit of £6.2 million decreases the General Fund balance to £17.7 million at 31 March 2019. Existing commitments against the balance are £15.3 million, including a Modernisation Fund of £0.6 million, developer contributions from HRA of £5.9 million and time limited projects of £1.2 million. Time limited projects are investments in specific programmes or activities for a short period of time typically to support transformational change or focus on a particular area to generate future financial and non-financial benefits. Full details of the commitments against the General Fund Balance are detailed in Note 34 on page 72. The uncommitted balance of £2.4 million, or 0.5% of budgeted net expenditure, is £0.4 million above the council's target minimum uncommitted General Fund balance of £2 million.

The council has a provision of £1 million for the settlement of claims for back pay arising from equal pay claims. As the council's equal pay claims are largely settled, the remaining provision is considered sufficient to meet the requirements of any final claims, with the remaining balance to be reallocated by the council.

The council has a Modernisation Fund which can be used to assist in funding potential termination costs for staff or other costs associated with modernisation and change within the council. From 2010/11 to date £17.8 million has been paid from the Modernisation Fund. As at 31 March 2019, the balance of the Modernisation Fund is £0.6 million (£3.2 million as at 31 March 2018).

Included in the Comprehensive Income and Expenditure Statement is £3.5 million (£0.7 million 2017/18) of expenditure in relation to the cost of agreed employee exit packages payable to 100 staff (31 staff during 2017/18) as part of the council's strategy to balance the budget.

During the normal fixed assets revaluation cycle, car parks, depots, stores, agricultural land, development land, industrial land and other ground leases, open spaces and woodlands were revalued. As a result, £44.9 million was charged to the Comprehensive Income and Expenditure Account. £0.6 million of this relates to the downward revaluation of the Economic Development Properties and £38.8 million of the remaining £44.3 million relates to impairment on council dwellings. The revaluation charge has no impact on the General Fund Balance carried forward.

5.3 Revenue Budget – Housing 2018/19

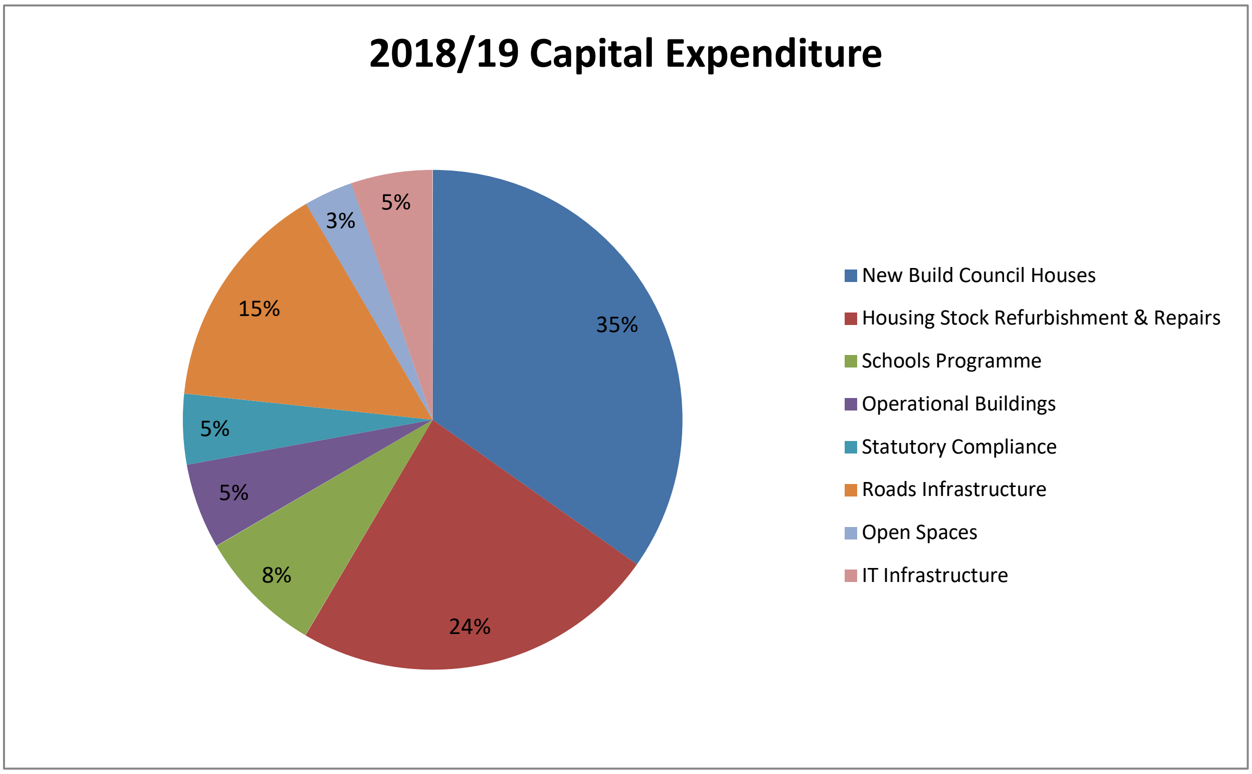
Statement 9 (page 75) the HRA – Income and Expenditure Statement includes depreciation and impairment on housing assets. The deficit for the year is £44 million (£22.7 million 2017/18). Statement 10 (page 77) the Statement of Movement on the HRA Balance adjusts this deficit as a result of amounts which are required by statute to be debited or credited to the HRA Balance for the year, the net credit for these items is £44 million (£22.7 million 2017/18). The overall position was breakeven for the year, which maintains the HRA balance carried forward at £0.9 million (£0.9 million 2017/18).

5.4 Capital Budget 2018/19

Under the provisions of the CIPFA Prudential Code for Capital Finance in Local Authorities, councils can decide locally on capital investment strategy on the basis that spending plans must be affordable, prudent, sustainable and meet Best Value requirements. Compliance with these criteria is demonstrated by defined prudential indicators.

Based on approved indicators, the council was able to demonstrate the affordability of capital plans. The capital financing requirement for 2018/19 was £722.7 million (£682 million 2017/18), £486.5 million (£469.6 million 2017/18) for general services and £236.2 million (£212.4 million 2017/18) for Housing Revenue Account. External debt levels were £710.4 million during 2018/19 (£650.1 million 2017/18).

5.5 Capital Programme 2018/19



The General Fund and Housing Revenue Account capital outturns are detailed in the following table:-

Capital Programme	2018/19 Budget £'000	2018/19 Actual £'000	2018/19 Over/(Under) Spend £'000	2017/18 Budget £'000	2017/18 Actual £'000	2017/18 Over/(Under) Spend £'000
General Services	29,431	28,723	(708)	44,851	49,423	4,572
Housing Revenue Account	42,019	40,447	(1,572)	57,452	48,590	(8,862)
Total Capital Expenditure	71,450	**69,170**	**(2,280)**	102,303	**98,013**	**(4,290)**

5.5 Capital Programme 2018/19 (Continued)

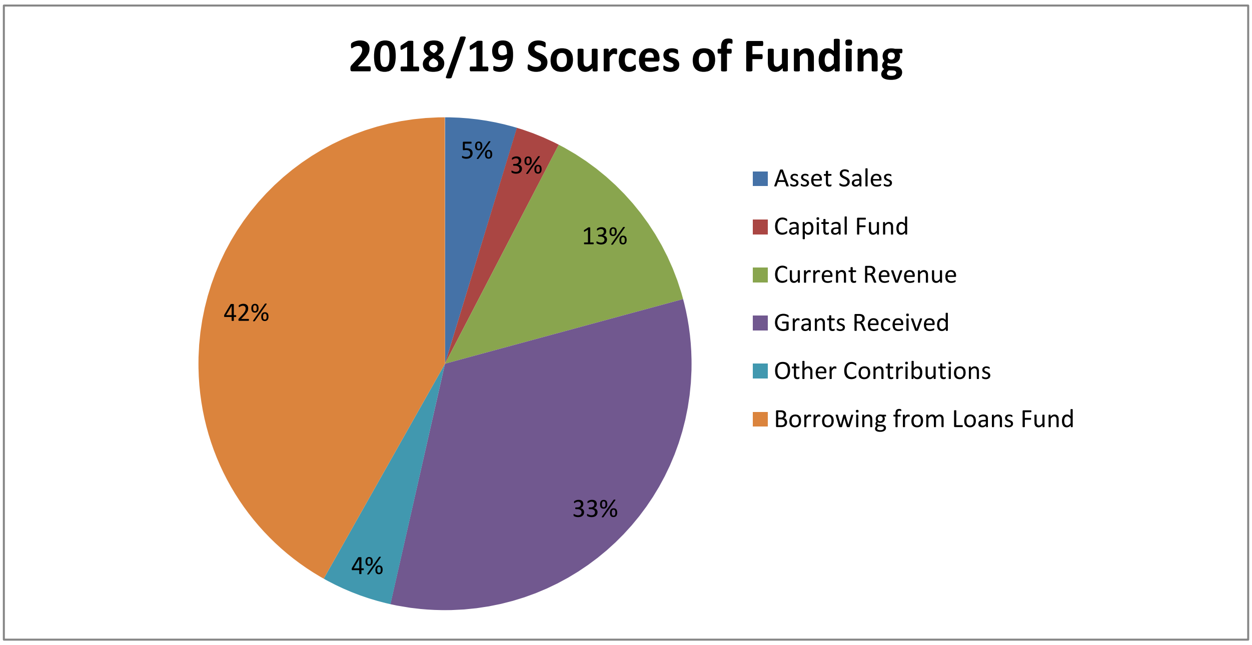
The 2018/19 General Services capital programme had a budget of £29.4 million and the final outturn for 2018/19 was £28.7 million. The variance of expenditure compared to budget for the year was £0.7 million due to slippage incurred in various projects across asset categories.

The HRA capital programme had a budget of £42 million and actual expenditure of £40.4 million resulting in a net variance of £1.6 million. This was mainly due to minor slippage on the New Build Programme.

The total council capital expenditure was funded as follows:-

Sources of Funding	2018/19 £000	2017/18 £000
Asset sales and contributions from third parties / funds	31,131	43,263
Revenue contributions to capital	9,108	9,677
Borrowing	28,931	45,073
Total Funding	**69,170**	**98,013**

Total debt outstanding at 31 March 2019 (2018) was £623.4 million (£588.4 million). The details of the debt outstanding are shown in note 15.3.



5.6 PPP and DBFM Contracts

As part of the funding arrangements for the delivery of the New West Calder High School, the council entered into a Design, Build, Finance and Maintain Agreement (DBFM), supported by the Scottish Governments Schools for the Future programme. The project financially closed in December 2016, with construction completion and handover occurring on the 29 June 2018.

The PPP and DBFM contracts are assessed under International Financial Reporting Standards (IFRS) which looks at aspects of control of an asset, such as specifying services and the price paid for these services. The net value of all PPP and DBFM assets in the balance sheet at 31 March 2019 is £150 million (£133 million as at 31 March 2018).

The outstanding liabilities on the PPP and DBFM contracts are £89.2 million (£63.1 million 2017/18) of which £3.2 million (£2.4 million 2017/18) is shown under current liabilities and £86 million (£60.6 million 2017/18) under long term liabilities.

Details of the annual costs of these contracts are shown in note 35.

5.7 **Significant Trading Operations (STO)**

The Local Government in Scotland Act 2003 introduced new requirements to maintain and disclose significant trading operations. Consequently, a trading account has been prepared for the council's only significant trading operation, Economic Development Properties, in accordance with guidance issued by CIPFA/LASAAC.

During 2018/19 the STO achieved an in-year surplus of £0.8 million (in-year deficit of £0.6 million 2017/18).

In the three years to 31 March 2019 the trading account sustained a statutory aggregate loss of £0.8 million, therefore not achieving the statutory financial requirement to breakeven over a three year period. This was a result of accounting charges for impairment of £0.6 million in 2016/17, £2.2 million in 2017/18 and £0.6 million in 2018/19. The financial position excluding these impairment charges of £3.4 million would have resulted in a surplus of £2.6 million over the three year period on assets from the Economic Development Property Portfolio. Note 29 provides further detail.

5.8 **Pension Reserve and IAS19**

The pensions accounting standard IAS 19 is fully adopted in the accounts and details are available in Statement 8 note 1 on accounting policies. The requirement to recognise the council's share of the net liabilities of the Lothian Pension Fund (LPF) in the balance sheet has resulted in a Pension Reserve debit balance of £279.7 million at 31 March 2019 (£202.4 million at 31 March 2018).

The balance sheet position for Lothian Pension Fund has worsened during 2018/19. Corporate bond yields are lower at 31 March 2019 than 31 March 2018 which serves to increase the value placed on the obligations. The effect of this has been partially offset by investment returns being greater than the 31 March 2018 discount rate.

There are also two main issues which have adversely impacted on the Local Government Pension Scheme obligations:

- McCloud judgement - judges brought a claim of indirect age discrimination in relation to the 2015 Pension Scheme transitional provisions.
- Guaranteed Minimum Pension (GMP) – the equalisation impact is shown as a past service cost for employers.

As a result, there is an allowance of £19.1 million in the 31 March 2019 accounting reports for the obligation in relation to the McCloud judgement and GMP equalisation.

The negative reserve does not impact on the council's available resources. The figures presented in the actuary's valuation are prepared only for the purposes of IAS19 and have no validity in other circumstances. In particular, they are not relevant for calculations undertaken for funding purposes, and have no impact on the employers' pension contribution rate.

5.9 **Other Reserves**

The following table details the usable reserves held by the council for the five year period 2014/15 to 2018/19.

Fund	**2014/15 £'000**	**2015/16 £'000**	**2016/17 £'000**	**2017/18 £'000**	**2018/19 £'000**
Committed General Fund	23,869	23,539	23,187	21,805	15,290
Uncommitted General Fund	2,000	2,070	2,075	2,101	2,373
HRA Fund	926	926	926	926	926
Capital Fund	84,765	88,214	65,527	58,963	61,713
Insurance Fund	13,570	13,715	11,835	10,125	10,391
Total	**125,130**	**128,464**	**103,550**	**93,920**	**90,693**

The reduction in the Committed General Fund Balance of £6.5 million in 2018/19 is largely due to the £2.6 million utilisation of the Modernisation Fund, £1.2 million for time limited projects, £1.2 million funding to West Lothian Leisure Ltd. and £1.2 million of funding from Scottish Government Grant Income paid in 2017/18 in relation to 2018/19 expenditure.

As part of the annual revenue budget setting process, the Head of Finance and Property Services assesses and reflects on the appropriateness of the unallocated general fund balance. The review is undertaken each year, and for 2018/19, was considered in the revenue budget report to the Council on 13 February 2018. It was concluded that, in order to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events, that the uncommitted balance be maintained at a minimum of £2 million. This level is assessed as appropriate as the council has an approved medium term financial strategy which is underpinned by clear financial planning arrangements, sound financial management and a number of other earmarked reserves.

5.10 **Group Accounts**

Local authorities are required to consider their interests in all types of entity, including companies, joint ventures and statutory bodies such as Valuation Boards. Where they have a material interest in such entities, authorities are required to prepare a full set of group accounts in addition to their own council's accounts.

The council has a number of non-consolidation interests in other entities, full details of which are shown on pages 87 and 88. For the purposes of consolidation and incorporation with the Group Accounts the council had one subsidiary company during 2018/19, West Lothian Leisure.

Lothian Valuation Joint Board is deemed to be an associate under group accounts guidance.

The council has joint venture relationships with a 50% holding in West Lothian Recycling Ltd and a joint venture in relation to the health and social care partnership in the form of the West Lothian Integration Joint Board (IJB).

6. Risk and Uncertainty

At present, there are no confirmed Scottish Government budget allocations for local government beyond 2019/20. There is a Scottish Spending Review scheduled for 2019 and this may provide greater funding certainty for three years, however the future level of Scottish Government grant funding remains a substantial risk to the council, at this time.

It is uncertain what proportion of the overall Scottish funding envelope will be allocated to local government, especially with an increasing number of Scottish Government national commitments and priorities. Other specific risks in relation to the council's Scottish Government grant funding include:

- Introduction of new legislation where inadequate funding is provided or redirection of core local government resources to support new national commitments.

- More ring fencing of grant funding, constraining how local authorities allocate their resources to deliver local priorities.

- Economic uncertainty, where economic growth is not in line with forecasts due to worldwide market conditions and the impact of Brexit, and how this can impact on public spending levels, especially as the overall Scottish funding envelope is now highly contingent on economic performance.

The council's approved financial plan is based on a number of short, medium and long term financial assumptions which are subject to significant risks and uncertainties. Whilst acknowledging that the council's planning assumptions are subject to uncertainty due to the planning time horizon, there are a number of risks, uncertainties and potential cost pressures that could impact on the council's ability to balance the revenue budget. These risks include:

- Increases to pay award, employers' National Insurance and pension contributions above the rates forecast. Although there is now certainty with agreed pay settlements for 2019/20 and 2020/21, there is a risk associated with the pay costs for the final two years of the approved plan. In addition there is a risk that the consolidation of the living wage may result in costs above those forecast in the financial model.

- Increase in costs in demand led services is greater than financial planning assumptions. Continued and accelerated increases, greater than forecasts, will create additional pressures.

- Actual inflation being higher than assumed, in particular for areas where contract prices have still to be agreed.

- Actual pupil numbers exceeding forecasts, requiring more teachers to be employed.

- House building assumptions of 900 per year are not realised resulting in changes to council tax and school demographic assumptions.

- Policy changes by the UK or Scottish governments which restrict the council's flexibility to decide how to deliver services locally.

- Full delivery of approved budget reduction measures, although good progress has been made to date in implementing savings.

6. Risk and Uncertainty (Continued)

In addition to the financial risks, some of the key non-financial risks identified include:

- Insufficient service capacity and supply to meet demand, resulting in vulnerable people not being able to access vital council services such as social care.
- Brexit impacting on labour supply, local employers, the general economic position in West Lothian and the council's ability to meet changing regulatory requirements.
- Adverse impact of the continued implementation welfare reform on local communities and families.

There continues to be a high degree of uncertainty around Brexit. At this point, it is difficult to assess what impact Brexit could have for the council specifically and public funding more widely. The council continues to keep all potential scenarios under review as part of the officer Brexit Corporate Working Group. Updates are also provided on how Brexit may impact on the council's financial strategy provided as part of the quarterly horizon scan update report to Partnership and Resources PDSP and on Brexit more widely at the Governance and Risk Committee. Copies of Brexit related reports considered by both the Partnership and Resources PDSP and the Governance and Risk Committee can be found on the COINS committee system on the council's website. An internal audit of the council's approach to preparing for Brexit concluded that the level of control was effective.

The Brexit Corporate Working Group was established in summer 2018 with membership including heads of service and senior officers. It meets regularly with the frequency of meetings increased when required to reflect developments in this highly evolving and uncertain area. Standing items considered by the group include a summary of Brexit developments and an update of the council's risk and contracts register. The council has a Brexit Risks log which includes 80 active risks across all areas of the council, eight of which are assessed as high/medium high. Examples of key risks actively considered by the group include disruption to the supply chain relating to suppliers and contractors of goods and services required for service delivery, specifically continued availability of food, increased requirement to support local businesses as they respond to the consequences of Brexit and recruitment of sufficient levels of social care staff.

Following the assessment of related risks, and as the 31 October 2019 deadline approaches, the group has become increasingly focused on implementing plans to help mitigate the identified risks. It is continuing to actively consider the risks in the register and identifying potential solutions to mitigate them. The council continues to liaise closely with the Scottish Resilience Partnership and has further focused on the key risk areas of food, fuel and medicines. Discussions with community planning partners, especially NHS Lothian, demonstrate that key partners are also monitoring key risks and identifying reasonable mitigating actions.

West Lothian Council approved an updated medium term financial plan for the period 2019/20 to 2022/23 at the Council meeting of 19 February 2019. In order to maintain a balanced budget for 2018/19 to 2022/23 the council is required to deliver total budget savings of £51.1 million. Council has approved budget saving measures of £46.7 million, leaving a balance of savings to be identified of £4.4 million.

The updated financial plan highlighted a number of risks over the period that will be closely monitored. In addition, an assessment of the risk to deliverability of each of the proposed budget saving measures was included in the budget report to assist councillors in the scrutiny aspect of their budget setting role.

Whilst the council has an approved medium term financial plan, with savings representing over 91% of the overall gap having been approved, the council continues to face unprecedented challenges in delivering essential services whilst resources are constrained. The 2019/20 to 2022/23 financial plan assists elected members and officers in effectively focusing on medium to long term sustainability and meets best practice requirements to ensure budgets are balanced, priority outcomes are met and performance is maintained or improved for key areas of service delivery.

The approved financial plan recognises that to ensure the council has balanced budgets going forward, fundamental changes are required to some services which contribute less to council priorities and the introduction of new models of service delivery are necessary in some areas. The council's Corporate Transformation Programme Team will help facilitate transformational change in the council and to assist with fully delivering approved budget reduction measures, helping to mitigate the risk of non-delivery of savings.

The council has an established risk based approach to budget monitoring which ensures that effective action is taken to manage risks. During 2019/20, officers will continue to provide updates on risks as part of the quarterly budget monitoring to Council Executive. The Audit, Risk and Counter Fraud Manager also monitors and oversees financial and non-financial risks through updates provided by managers on the Pentana System. Regular updates are provided to the Officer Governance and Risk Board and to elected members and the public through the Governance and Risk Committee. Reports and minutes for the Governance and Risk Committee are available on COINS.

7. Future Work and Ongoing Developments

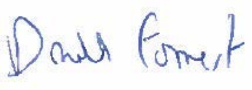
The council has made good progress in securing its ongoing financial sustainability through the approval of the corporate plan, the 2019/20 to 2022/23 revenue plan and the long term capital investment programme. The revenue plans provide a medium term framework for the continued delivery of balanced budgets however officers continue to undertake work on financial planning and delivery of savings.

As acknowledged in the revenue budget report considered and approved by Council in February 2019, there remains an outstanding budget gap over the three years 2020/21 to 2022/23.

The Cabinet Secretary for Finance, Economy and Fair Work confirmed at stage 1 of the budget bill that he intended to bring forward changes to legislation which will allow councils to vary loans fund repayments for advances made prior to 1 April 2016. Council agreed that the Head of Finance and Property Services should report on the use of any potential additional resources to support the council's financial plan, including the commitment in the first instance to provide resources for the Modernisation Fund required to support the continued delivery of budget savings.

It was agreed by Council that officers will consider options to address the remaining budget gap, including potential additional efficiency measures and use of the new council tax flexibility, and bring options back to elected members for consideration in 2019/20. Work is underway on developing options that aim to minimise any adverse impact on service delivery, with the aim that the council will be able to approve balanced three years budgets for 2020/21 to 2022/23 in early 2020. Reports on the updated budget gap, potential additional saving measures, council tax options and availability of one off resources to support the continued implementation of the agreed financial plan will be considered by the Partnership and Resources PDSP in September 2019. Thereafter reports on the potential additional saving options will be considered by individual PDSPs to facilitate scrutiny and a report on the loans fund, insurance fund and modernisation fund will be presented to Council for approval.

With approval of the 2019/20 to 2022/23 revenue budget financial plan, officers will focus on the delivery of services that achieve agreed priorities and meet the needs of individuals, families and communities.



Donald Forrest CPFA
Head of Finance and Property Services

Graham Hope
Chief Executive

Councillor Lawrence Fitzpatrick
Leader of the Council

24 September 2019

THE AUTHORITY'S RESPONSIBILITIES

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Head of Finance and Property Services;

- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003);

- approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by West Lothian Council at its meeting on 24 September 2019.

Signed on behalf of West Lothian Council

Councillor Lawrence Fitzpatrick
Leader of the Council
24 September 2019

THE HEAD OF FINANCE AND PROPERTY SERVICES' RESPONSIBILITIES

The Head of Finance and Property Services is responsible for the preparation of the authority's Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Accounting Code).

In preparing the Annual Accounts the Head of Finance and Property Services, has:

- selected suitable accounting policies and then applied them consistently;

- made judgements and estimates that were reasonable and prudent;

- complied with legislation;

- complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Head of Finance and Property Services has also:

- kept adequate accounting records which were up to date;

- taken reasonable steps for the prevention and detection of fraud and other irregularities;

I certify that the financial statements give a true and fair view of the financial position of the local authority (and its group) at the reporting date and the transactions of the local authority (and its group) for the year ended 31 March 2019.

Donald Forrest CPFA
Head of Finance and Property Services
24 September 2019

1. Corporate Governance

1.1 Corporate governance is the systems, processes, culture and values by which the council is directed and controlled, and the activities through which it is accountable to, engages with and leads the West Lothian community. It comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved. To deliver good governance in the council, its governing bodies (full council and committees) and individual councillors and members of staff must try to achieve its objectives while acting in the public interest at all times. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.

1.2 The council, through all 33 of its members, has overall responsibility for good governance arrangements – for establishing its values and principles and culture, for ensuring the existence and review of an effective governance framework, and for putting in place monitoring and reporting arrangements. In practice, the council to a large extent entrusts the delivery of those tasks to committees and to appropriate council officers. That delegation does not remove or avoid the responsibility of all the council's elected members for governance.

1.3 In the council's Corporate Plan 2018/19 to 2022/23 "Transforming Your Council" (13 February 2018) the place of corporate governance as an "enabler" is recognised and established. Along with risk management, financial planning and modernisation and improvement it is one of the essential back-office corporate services necessary to assist the setting, monitoring, achievement and reporting on corporate priorities and outcomes. The Corporate Plan acknowledges the wide understanding that good governance promotes good decision-making.

1.4 The governance framework is made up of corporate documents, policies and procedures which are designed to guide and assist the council in doing its business in accordance with the law and with proper standards and principles; ensuring that public money is safeguarded and used economically, efficiently and effectively; and fulfilling its statutory duty to secure best value.

1.5 All of the council's decision-making is carried out within the framework of its Standing Orders. They are made up of:-

- Standing Orders for the Regulation of Meetings governing the way council, committee and Policy Development and Scrutiny Panel meetings are arranged, convened and run
- Scheme of Administration containing the remits, powers and membership arrangements for all the bodies in the structure in which elected members are involved
- Scheme of Delegation to Officers setting out the responsibilities and powers allocated to senior officers by council and committee
- Standing Orders for Contracts and Corporate Procurement Procedures which control the council's procurement activity
- Financial Regulations which set the rules and procedures for financial, budget and treasury management

1.6 All these documents should be reviewed at least once in each administrative term. In practice they are reviewed continuously and refreshed on a more frequent basis as circumstances require.

2. Political structure and administration

2.1 Local government elections were held in Scotland in May 2017. West Lothian Council is a council of nine electoral wards and 33 councillors. Those elected were made up of 13 SNP members, 12 Labour members, 7 Conservative members and 1 Independent member. The Provost and Leader of the Council were elected in May 2017 and remain in position. A minority Labour administration was established and remains in place. The council's committee structure was re-established by June 2017.

2.2 Along with the Provost and Council Leader, eight Executive Councillors (portfolio holders in relation to council services) and chairs and vice-chairs of all other committees were elected. Senior councillor payments were agreed. Those appointments and payments remained unchanged at the end of 2018/19 except for small increases in rate of pay as a result of statutory regulations. The statutory annual report for 2018/19 on elected members' remuneration, allowances, expenses and training was made to Council Executive on 21 May 2019.

3. Management structure

3.1 The council's services are managed through its Executive Management Team, comprised of the Chief Executive, three Depute Chief Executives and the Head of Finance and Property Services. Those officers and 7 Heads of Service form the Corporate Management Team. Each service has a Senior Management Team and other managers and teams within its structure.

The service management structure is as follows.

Two Heads of Service posts fell vacant in 2018/19. Both were filled initially on an interim basis, prior to being appointed to on a permanent basis. In addition, one of the three Depute Chief Executives is retiring in 2019/20. A replacement has been appointed in conjunction with the health board and the West Lothian Integration Joint Board, both of which had an interest in the appointment. The appointee will take up the post from 30 September 2019.

3.2 In addition to and linking across its service structure the council's management is carried out through Executive Boards, Project Boards and Working Groups with defined remits and membership to reflect the remit and aims of the body concerned.

3.3 The council in February 2018 established a Corporate Transformation Team, made up of senior council officers seconded from across its service areas. They are managed by a Depute Chief Executive and their task is the project management of the transformational change required to deliver on the council's Corporate Plan objectives and priorities and its long-term financial plan. The team's contribution and structure have been reviewed in 2018/19 and changes will be made in 2019/20 to help take forward the ongoing transformation of council services and delivery of budget reduction measures.

4. Decision-making and scrutiny arrangements

4.1 The council has a well-established framework of committees and working groups. The various bodies and their remits and powers are set out in the Scheme of Administration which is part of the council's Standing Orders. Standing Orders can only be changed at a meeting of full council. The committee structure is supported by a complementary Scheme of Delegations to officers which sets out the responsibilities and decision-making powers that council has delegated to officers. That too is part of Standing Orders and is updated every three months to reflect changes agreed at council and its committees.

4.2 The pre-existing committee structure was adopted following the local government elections in May 2017. It was reviewed thereafter, in particular as a result of actions agreed in response to the Best Value Assurance Report. Changes made in 2017/18 were reported in the annual governance statement for that year.

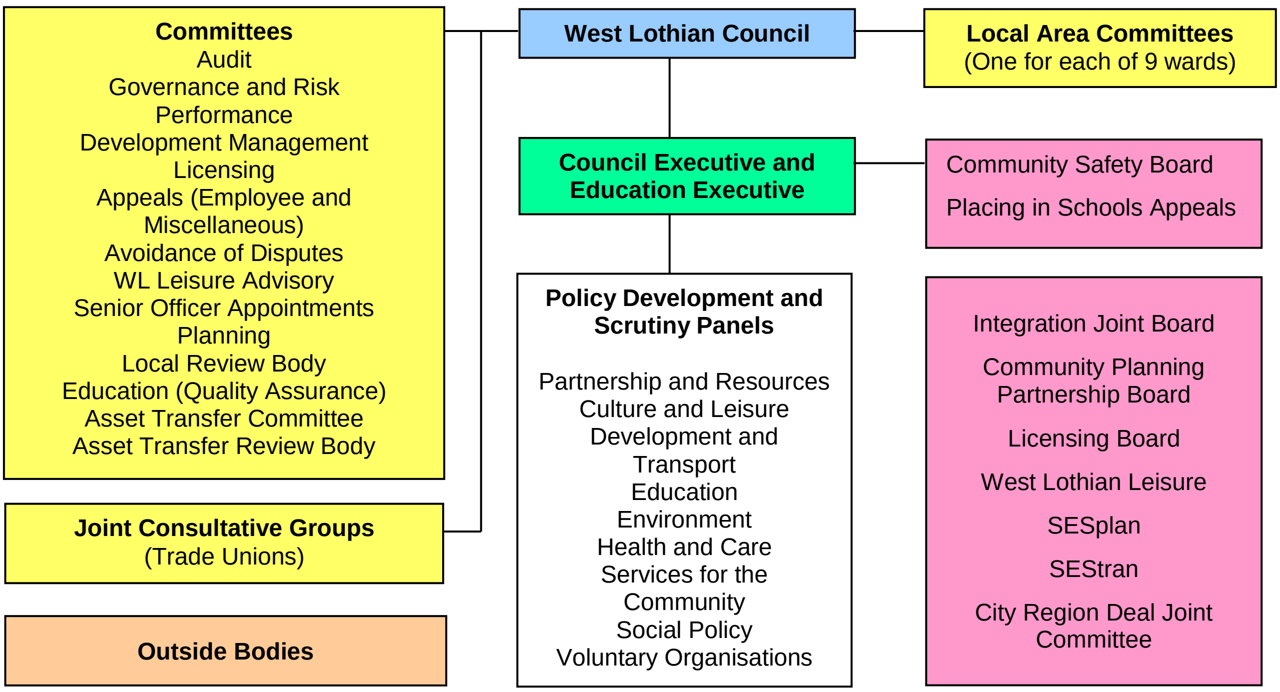
4.3 Other changes have been made in the course of 2018/19:-

- the council's Best Value Assurance Report 2017 made recommendations about the relationship between the council and West Lothian Leisure Ltd., the ALEO delivering the council's leisure services. In implementing the actions agreed to address the Accounts Commission's findings internal reporting and scrutiny arrangements were strengthened through updates to the powers and remits of the West Lothian Leisure Advisory Committee (WLLAC), and through requirements to report WLLAC minutes to full council, to provide annual reports to Council Executive (the main decision-making committee), and to conduct a three-yearly root and branch review of the relationship and report to Council Executive with recommendations and assurances
- implementation of the community asset transfer legislation meant that two new committees had to be set up to determine applications and reviews by disappointed applicants
- arising from a small number of exceptional cases where applications previously refused were repeated, a risk was identified that committees dealing with planning applications and reviews might not have a quorum of members if members felt unable to deal with the repeat cases after taking part in their earlier disposal. Membership arrangements were changed to have available a small number of reserve committee members who can be called upon where these circumstances arise

4.4 The structure in place at the end of 2018/19 is shown below. It consists of two main decision-making committees (Council Executive and Education Executive). Proposed policy changes are considered first at one of nine Policy Development and Scrutiny Panels (PDSPs). There are a number of regulatory and appeals committees. There is one local area committee for each ward to focus ward issues. Scrutiny is carried out through Audit Committee, Governance and Risk Committee, Performance Committee, Education (Quality Assurance) Committee and the nine PDSPs. Full Council meets every 8 weeks to deal with reserved matters and political debate and scrutiny.

4.5 On 13 February 2017 council instructed officers to carry out a review of its decision-making. That review started in mid-2018 by engagement with elected members and political groups. A number of potential changes were developed and refined through further discussion. The resulting proposals were reported to PDSP in August 2018 and then in October 2018 and January 2019. Some of the less significant suggestions have been taken forward separately through officers and through separate committee decisions. A report will be made to committee during 2019/20 to establish what potential changes should be pursued.

Decision Making Structure



5. Audit Committee

5.1 The committee's remit includes undertaking a corporate overview of the council's control environment, developing an anti-fraud culture to ensure the highest standards of probity and public accountability, and evaluating the arrangements in place for securing the economical, efficient and effective management of the council's resources. It considers annual reports by the Audit, Risk and Counter Fraud Manager which provide an opinion and assurance on the overall adequacy and effectiveness of the council's control framework. It monitors the independence and effectiveness of the Audit, Risk and Counter Fraud Unit. It is given assurance in relation to non-internal audit functions managed by the Audit, Risk and Counter Fraud Manager through the internal audit manager of Falkirk Council. The committee includes one non-councillor member recruited for a three year tenure. That member is entitled to the same papers and reports as councillor members of the committee and brings a different non-council and non-councillor perspective to the work of the committee. That member left during 2018/19 and arrangements are in hand to find a replacement, in parallel with a similar position on Governance and Risk Committee.

5.2 The committee meets four times each year. It operates through an annual work plan approved by the committee. Reports by the Audit, Risk and Counter Fraud Manager are presented and considered in public unless there is clear legal justification for excluding the public. The outcome of internal audit and counter-fraud investigations judged to be significant are reported. They express an opinion as to whether controls are satisfactory or require improvement. They set out improvement actions which have been agreed with relevant managers. The findings, actions and times for completion are presented for committee approval. The committee periodically receives a report by the Audit, Risk and Counter Fraud Manager in relation to agreed actions which have been reported to committee but which have not been fulfilled timeously. Reports highlighting more significant areas of concern will result in a follow-up report to the committee to give assurance to members that agreed actions have been completed or are on schedule for completion.

5.3 The committee deals with reports from the council's external auditors. It receives the External Audit Annual Plan which informs the council of the work to be undertaken in the course of the year, the views of the external auditors on the work of Internal Audit and the extent of additional risk-based external scrutiny through the Local Area Network. The external auditor's annual report on the council's accounts and financial statements are referred to the Governance and Risk Committee and Audit Committee by council after it approves the audited accounts for signature. Any actions identified are noted and are followed up through periodic reporting to committee on progress or completion.

5.4 The committee also considered reports issued by the Accounts Commission and/or Audit Scotland in relation to the council or local government as a whole. It can consider those reports from the councillors' perspective and recommend any action which it considers should be taken in response.

5.5 Arising from the Best Value Assurance Report 2017 the committee in 2018/19 carried out a self-assessment of its operation and considered the findings. The same exercise will be repeated each year.

6. Governance and Risk Committee

6.1 The committee's remit includes undertaking a corporate overview of the council's corporate governance and risk management arrangements, reviewing policies and practices in operation to ensure compliance with governance statutes, directions, standards and codes, developing a culture within the council of good corporate governance, risk awareness and risk management, and reviewing the council's strategy and systems for the management of risk and relevant reporting arrangements and ensuring they are adequate and cost effective. It considers reports from the Governance Manager and Audit, Risk and Counter Fraud Manager in relation to matters within its remit.

6.2 The committee meets at least four times each year. It operates through a work plan presented and updated at every meeting. It has received reports on a rota basis from services on their risk management arrangements. It considers a report at every meeting on the council's high risks and on health and safety incident reporting. It examines ad hoc risk and governance issues, such as cyber-security risks and Brexit. It now considers risk reports from the council's external risk advisers, Gallagher Bassett. It is charged with approving the annual governance statement after considering the Audit, Risk and Counter Fraud Manager's review of the system of internal control.

6.3 Like Audit Committee, the committee conducts a self-assessment exercise to inform its development and progress. The same exercise will be carried out each year as part of the committee work plan. As with Audit Committee, arrangements are in hand to try to identify a non-councillor member of the committee.

7. Other scrutiny arrangements

7.1 The council deals with the remainder of its scrutiny function by members in three other places – Policy Development and Scrutiny Panels (PDSPs), Performance Committee and Education (Quality Assurance) Committee.

7.2 PDSPs are working groups of members and representatives from external community bodies. They consider quarterly performance reports from the service areas included in their remit. The reports are drawn from the council's well-established performance monitoring and reporting system (Pentana) and reports are presented with graphs, charts and RAG analysis together with explanatory commentary. Members and external representatives are able to question officers on service performance and make recommendations to them about improvement actions. Arising from the Best Value Assurance Report, financial performance reporting was incorporated to complement service delivery performance reporting to the PDSPs. Members therefore receive information on both aspects of performance against agreed indicators and outcomes.

7.3 The Performance Committee is established to consider the performance of service units against the council's performance appraisal system, the West Lothian Assessment Model (WLAM). It receives written reports presented at public committee meetings by senior service managers and can question them and make recommendations to them about improvement actions. The council's WLAM programme was refreshed in 2018/19 and Performance Committee made corresponding and complementary changes to the form and content of the reports it receives at the end of that WLAM process. The committee also scrutinises quarterly and annual reports on the council's complaints handling policy and performance. It considers the results of the local authority benchmarking review carried out annually in conjunction with the Improvement Service.

7.4 The Education (Quality Assurance) Committee carries out a scrutiny role solely in relation to schools' performance and internal and external assessment reports. The committee includes the non-councillor members appointed by the council in relation to its education function. Representatives from the relevant school's Parent Council are invited to attend and take part in the committee's meetings. It provides a dedicated and specialised forum for scrutiny of performance and inspection results for schools and educational establishments.

8. Code of Corporate Governance

8.1 The council's governance arrangements are now monitored and reviewed and reported in accordance with statutory requirements and under a Framework and Guidance for Scotland called "Delivering Good Governance in Local Government", produced by CIPFA/SOLACE in 2016. A new Local Code of Corporate Governance was accordingly adopted in April 2018 and was used for the first time in 2017/18 reporting.

8.2 The Code adopts the seven over-arching principles from the Framework:-

- behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- ensuring openness and comprehensive stakeholder engagement
- defining outcomes in terms of sustainable economic, social and environmental benefits
- determining the interventions necessary to optimise the achievement of the intended outcomes
- developing the entity's capacity, including the capability of its leadership and the individuals within it
- managing risks and performance through robust internal control and strong public financial management
- implementing good practices in transparency, reporting and audit to deliver effective accountability

8.3 Each of those principles is broken down into sub-principles and then separate elements to allow a more focused approach to the components of each. A list of sources of evidence has been added and the council's actions and performance over the year are assessed to determine where the council exceeds, meets or fails to meet the required standards. Areas of concern are picked out and reported on through the annual reporting process. Actions are identified and allocated and progress monitored though committee.

8.4 The Code is used to inform the drafting and approval of the annual governance statement through the Governance and Risk Board and Governance and Risk Committee. It is reported on in detail to members at Council Executive in the autumn after consideration by the Corporate Management Team. It is then published and considered in more detail, with any recommendations from officers and Council Executive, and agreed actions are monitored throughout the rest of the reporting year.

8.5 The fully-populated Code for 2017/18 was part of the annual report on corporate governance to Council Executive in September 2018. It was included in the ensuing report to Governance and Risk Committee in October 2018. For the first time the governance issues were extracted for the committee's attention. That led to an update/progress report on those actions to the committee at its meeting in February 2019.

9. System of internal control

9.1 A significant part of the council's governance framework is its system of internal control (financial and other). It is an ongoing process designed to identify risks to the achievement of the council's objectives; to evaluate the likelihood of those risks occurring; to consider the potential impact of the risks; and to manage them effectively. Those controls can never eliminate risk or failure to achieve objectives entirely – they can only provide reasonable and not absolute assurance. The design, development and management of the system of internal control is undertaken by managers within the council.

9.2 The system of internal financial control is designed to provide assurance on the effectiveness and efficiency of operations and the reliability of financial reporting. It is based on a framework, which includes financial regulations and a system of management supervision, delegation and accountability, supported by regular management information, administrative procedures and segregation of duties. Its key elements include a documented internal control framework relating to financial processes, procedures and regulations; a comprehensive budgeting and monitoring framework; scrutiny of periodic and annual financial and operational performance reports; performance management information; and project management disciplines.

9.3 Reporting to members on the effectiveness of the system of internal control is a statutory requirement carried out by the Audit, Risk and Counter Fraud Manager in his Internal Audit Annual Report to committee in June each year. Its consideration precedes and informs this statutory annual governance statement which requires approval by the council through the Governance and Risk Committee and incorporation into the annual accounts and financial statements.

9.4 Following his review for 2018/19 his conclusion is that the framework of governance, risk management and control is generally sound. His high-level review of standing orders, policies, procedures and strategies led him to the conclusion that control was effective. Based on internal audit investigations and reports throughout the year he has identified areas where improvements could be made and confirmed that recommendations would be followed up and reported as required.

9.5 Three issues were identified in particular – ineffective controls in Social Policy in relation to a care at home contract; information security breaches; administration of school medication. All were reported to committee and actions agreed for implementation. The last of the three issues is due to be reported to Audit Committee in June 2019.

10. Compliance statements

10.1 A set of compliance statements is produced to sit alongside the Code and also inform the drafting and approval of the annual governance statement. They deal with compliance with the law and with the council's corporate policies, procedures and practices of significance to good governance. They are prepared after consultation with services and senior officers and take into account oversight by external bodies of the council's compliance. They are signed by the responsible senior officer. They are designed to bring to the attention of elected members any incidents of non-compliance which are significant to the council's operations and which are not reported elsewhere in a systematic way. The compliance statements for 2017/18 were reported in full to Council Executive and then Governance and Risk Committee in September and October 2018 as part of the reporting on corporate governance arrangements.

10.2 They cover the following areas of activity:-

- Best Value Framework - Head of Finance and Property Services
- Procurement - Head of Corporate Services
- Fraud and Corruption - Head of Finance and Property Services
- Employee Whistleblowing - Head of Finance and Property Services
- Discipline and Grievances - Head of Corporate Services
- Occupational Health and Safety - Head of Corporate Services
- Protection of Vulnerable Groups - Head of Corporate Services
- Information Security - Head of Corporate Services
- Public Sector Equality Duty - Head of Corporate Services
- Breaches of the Law - Monitoring Officer

10.3 The statement by the Monitoring Officer is particularly important. The Monitoring Officer is one of the four statutory officer posts charged with ensuring the council's compliance with its statutory duties and responsibilities and reporting on any breaches of the law which are significant to the operation of the council. Although the statement confirmed that there were examples of failure to comply with some statutory requirements, none of those, singly or together, was significant enough to have any effect on the effective operation of the council. The Information Security Statement confirmed that improvements had been made in response to adverse findings in Internal Audit reporting, in particular the use of Objective work flows to monitor and control data breaches. The development of an over-arching information government policy and review of supporting procedures will assist as well. Some of the policies underlying the compliance statements will be subject to their periodic review in the remaining years of this administrative term.

10.4 Separate and stand-alone reporting is carried out annually on the Councillors' Code of Conduct, Freedom of Information and Data Protection, and on Covert Surveillance and Accessing Communications Data.

11. Officer activity

11.1 The council is required by legislation to operate a professional and objective internal audit service. The Audit, Risk and Counter Fraud Unit includes internal audit which is an independent appraisal function which examines and evaluates systems of financial and non-financial control. Internal Audit operates in accordance with the "Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector" (PSIAS). The Internal Audit Charter was reviewed during the year and approved at Audit Committee. An annual audit plan is prepared based on an assessment of risk and is approved by the Audit Committee. Internal audit reports are issued to the committee in relation to the outcome of significant proactive and reactive reports. Reports are issued in the name of the Audit, Risk and Counter Fraud Manager who has the right, when deemed necessary, of direct access to the Chief Executive. There is annual reporting to the committee of internal audit activities and to give assurance about the independence, effectiveness and soundness of the service. An interim report is brought to committee during each year to advise of progress towards completion of the Plan. An Internal Audit and Counter Fraud Strategy 2018/19 to 2022/23 was approved in June 2018 as one of the corporate strategies supporting delivery of the Corporate Plan. An annual report on progress against agreed outcomes will be made to Audit Committee each year.

11.2 Legislation requires the council to appoint a Chief Financial Officer. That role is to be performed in accordance with to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016). It sets out the requirement for the Chief Financial Officer to be professionally qualified and sets out the criteria for qualification. The council's Head of Finance and Property Services is the council's Chief Financial Officer. He operates in accordance with the council's Financial Regulations and Treasury Management Plan, and reports regularly to members on revenue and capital budgetary performance and compliance. The role is undertaken in accordance with the relevant statutory rules, guidance and standards. Treasury Management reports are made to full council twice each year. A new requirement for approval of and reporting on a capital asset management strategy was met in March 2019. The Scheme of Administration will be amended accordingly.

11.3 Risk Management is overseen by the Audit, Risk and Counter Fraud Manager. It is embedded at Executive and Corporate Management team level as well as in service management teams across the council. Management teams monitor, assess and mitigate risk as a matter of routine at their meetings. The process is managed through Pentana. A Risk Management Strategy 2018/19 to 2022/23 was approved in June 2018 as one of the corporate strategies supporting delivery of the Corporate Plan. An annual report on progress against agreed outcomes will be made to Governance and Risk Committee each year.

11.4 The council's counter fraud activities are managed by the Audit, Risk and Counter Fraud Manager. The service is operated in accordance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption (2014). The unit is responsible for the council's whistleblowing hotline and for dealing with information from there and other sources relevant to fraud or corruption. It also administers the council's participation in the National Fraud Initiative. An Internal Audit and Counter Fraud Strategy 2018/19 to 2022/23 was approved in June 2018 as one of the corporate strategies supporting delivery of the Corporate Plan. An annual report on progress against agreed outcomes will be made to Audit Committee each year.

11.5 The Audit, Risk and Counter Fraud Manager presents annual plans for each of these three services to committee in February/March each year for approval. He presents a year-end report for each and interim reports for audit and counter fraud, summarising activity, performance and completion on the annual plans. The council's external audit and Best Value Assurance Reports commented on the potential for conflict of interest where these services are managed by the same officer. The council's response was that the risk was recognised and mitigated by management who ensured that the risk management process is audited externally as part of a partnership arrangement with another council. The view of the council's Corporate Management Team is that the arrangements for management of risk have improved significantly since responsibility for risk was combined with internal audit. Independence is assured through a different council's internal audit service.

11.6 Governance and risk management are supervised on the officer side of the council by the Governance and Risk Board. It is chaired by a Depute Chief Executive and its members include the Monitoring Officer, the Audit Risk and Counter Fraud Manager, the Governance Manager, the Chief Solicitor and senior managers from across the council's service areas. It receives reports from officer working groups on risk and corporate governance and monitors corporate and high risks. It considers the annual report on corporate governance and the compliance statements before they are presented to committee. It provides an effective control and conduit for risk and governance issues and matters of concern.

11.7 Management teams also routinely monitor their performance through Pentana, utilising the high-level performance indicators which are reported publicly as well as lower level management performance indicators. Services are divided into WLAM units which report on an agreed cycle to a panel chaired by the Chief Executive. It considers the evidence presented and allocates a score. The service unit then proceeds to report to the Performance Committee.

12. External reports

12.1 The actions arising from the Best Value Assurance Report were completed timeously in 2018/19. Their completion was reported to Audit Committee in October 2018. Consideration and scrutiny of the council's continuing delivery of best value will be undertaken through the council's external auditors who have set out a scrutiny plan for a five year period.

12.2 The external auditors' annual report was considered at council in September 2018 and referred on to Audit Committee and Governance and Risk Committee for further scrutiny. The auditors' report did not identify actions to be addressed during 2018/19. It highlighted a concern in relation to financial sustainability. However, that arose based on a national assessment of risk to all councils and not form the council's own financial planning arrangements. Those were described as an example of good practice in the report.

12.3 The Local Scrutiny Plan 2019/20 was a work in progress when the external audit plan for 2019/20 was reported to Audit Committee in March 2019. The conclusion of the shared risk assessment for 2018/19, was that no significant risks were identified that would require specific scrutiny by members of the LAN in the year.

13. Matters of concern from 2017/18 – progress and completion

13.1 The annual governance statement for 2017/18 listed areas where work in relation to corporate governance would be focused. Those were highlighted separately to Governance and Risk Committee in October 2018 and an interim report on progress was made to that committee in February 2019. No concerns were expressed or additional actions identified at either meeting. Those issues will also be reported to committee as part of the annual report on corporate governance. It will include a note of the position in February 2019 and an up-to-date report on corporate governance. It will include a note of the position in February 2019 and an up-to-date commentary.

13.2 Of the 12 issues listed, 6 have been completed and the other 6 are ongoing. They will be carried forward into 2019/20 and progress will continue to be reported. None of those which are still to be completed present any significant risk to the council.

14. Governance issues arising in 2018/19

14.1 Internal Audit and Counter Fraud investigations identified a number of activities in which control was unsound or required improvement. Those were reported to committee with actions agreed and timetabled. They were summarised in the Internal Audit and Counter Fraud Annual Reports and in the review of the system of internal control. They will be followed up during 2019/20 in accordance with committees' decisions.

14.2 An Internal Audit and Counter Fraud Strategy and a Risk Management Strategy were approved during the year as part of the suite of corporate strategies supporting the Corporate Plan. Annual progress reports will be made to Audit Committee and Governance and Risk Committee respectively.

14.3 Governance and Risk Committee continued its scrutiny of risk arrangements through standing reports on high risks, health and safety risks, corporate risks and Brexit-related risks.

14.4 Interim progress reports were made to Governance and Risk Committee on the issues identified in the annual governance statement for 2017/18.

14.5 The Accounts Commission report on ALEOS was considered by Audit Committee in the context of the council's compliance with its recommendations in its relationship with West Lothian Leisure, its only ALEO. The committee considered that the council's arrangements were robust and met the Commission's recommendations.

14.6 Audit Scotland's report on Progress in Health and Social Care Integration was also considered since it contained recommendations for councils as well as Integration Joint Boards.

14.7 The governance arrangements for the Edinburgh and South East Scotland City Region Deal were finalised, through the establishment of a joint committee with a supporting structure of groups and forums beneath it.

14.8 The Scheme of Devolved School Management was reviewed and updated.

14.9 The council established its position in relation to the local governance review led jointly by the Scottish Government and COSLA.

14.10 Community Planning partnership structures and governance arrangements were developed further, with the establishment of new themed forums, notably the Anti-Poverty Task Force.

14.11 The Scheme of Administration was amended to reflect decisions at full council on setting up new committees for asset transfers and ensuring the effective administration of Development Management Committee and Local Review Body.

15. Matters to be considered in 2019/20

15.1 The further development and the implementation of community empowerment measures will be significant. Progress has been made with Participation Requests and Asset Transfers. Proposals for Community Choices will have to have appropriate regard to Following the Public Pound whilst complying with the legislation and meeting community aspirations.

15.2 The ongoing review of the council's decision-making arrangements will be concluded and reported.

15.3 Many of the documents which comprise the system of internal control require to be reviewed before the end of this administrative term. Some of those are already timetabled for review (e.g., Best Value Framework, Anti-Fraud and Corruption Policy) but the scheduling of the others for review should be started. In particular a complete revision of Standing Orders for Contracts should be undertaken to build on the review and update carried out this year.

15.4 In light of financial pressures and the departure of its Chief Executive, the council's relationship with West Lothian Leisure will require to be kept under review and its performance monitored and reported to ensure the ALEO arrangement continues to be the best option for service delivery and best value.

15.5 The council's position on the review of local governance being conducted jointly by the Scottish Government and COSLA will have to be developed and progressed as the review enters its next stages, even if legislation in this Parliamentary term now seems unlikely. There remains the potential for major changes to decision-making arrangements, especially at community level.

15.6 The momentum gathered in relation to members' training arrangements should be continued through the Officer Working Group and continuing engagement with members.

15.7 The relationship with the Integration Joint Board should be developed and progressed in light of the recommendations made in four separate external reports relating to health and social care integration.

15.8 Progress reports and scrutiny of performance will be required on the suite of corporate strategies approved in June 2018 in support of the Corporate Plan.

15.9 The three issues of significant concern arising from the review of the system of internal control should be brought to a conclusion via follow up reports and monitoring of agreed risk actions.

15.10 The restructuring of the community planning partnership will continue with its review of the Local Outcomes Improvement Plan.

15.11 The Councillors' Code of Conduct will be reviewed through the Scottish Government and Parliament this year, and the council should participate in that process and plan for training and education on the revised Code and Guidance.

15.12 The issues from 2017/18 which are not yet completed should be brought to conclusion.

15.13 These issues will be reported to Governance and Risk Committee for it to have sight of progress during the year.

16. Conclusion and assurance

16.1 Based on the governance framework, arrangements and review already described, the council and the West Lothian community can be assured that the council's corporate governance standards have been substantially met in 2018/19.

Graham Hope
Chief Executive

Councillor Lawrence Fitzpatrick
Leader of the Council

24 September 2019

1. INTRODUCTION

In accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2011, West Lothian Council is required to prepare a Remuneration Report to disclose remuneration information and details of West Lothian Council's remuneration policy for "relevant persons". The Regulations define "relevant persons" as senior councillors and senior employees.

Information disclosed in the tables in this report is subject to audit by Ernst & Young LLP to report on whether that information has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 2014 (with the exception of the table in note 4.4). All other sections of the Remuneration Report, including the table in note 4.4, are read and considered to identify any material inconsistencies with the financial statements.

2. COUNCIL LEADER, PROVOST AND SENIOR COUNCILLORS

2.1 Remuneration Policy

The remuneration of councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Amendment Regulations 2017 (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 Provost, Senior Councillors or Councillors. The Leader of the Council and the Provost 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 in the council's political management structure.

The salary that is to be paid to the Leader of the Council is set out in the Regulations. For 2018/19 the salary for the Leader of West Lothian Council was £33,992 (£33,857 2017/18). The Regulations permit the council to remunerate one Provost and set out the maximum salary that may be paid to the Provost. For 2018/19 the salary of the Provost of West Lothian Council was £26,362 (£25,392 2017/18). The council's Scheme of Elected Members Remuneration, Allowances and Reimbursement of Expenses 2018/19 sets the level of payment in accordance with the regulations at the national maximum.

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 per cent 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 for 2018/19 shall not exceed £297,420 (£296,238 2017/18). The council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits.

In 2018/19 (2017/18) West Lothian Council had 12 (12) senior councillors and the basic salary paid to these councillors totalled £297,420 (£289,860 2017/18). 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.

The Scheme of Elected Members Remuneration, Allowances and Reimbursement of Expenses which sets out details of the salary parameters for all elected members including the Leader, Provost and Senior Councillors was agreed at a meeting of the Council Executive on 6 March 2018 and is available at http://coins.westlothian.gov.uk/coins/submissiondocuments.asp?submissionid=37851

2.2 Remuneration Policy - Convenors and Vice Convenors for Police and Fire Functions and Joint Boards

In addition to the Senior Councillors of the council the Regulations also set out the remuneration payable to councillors with the responsibility of a convenor or a vice-convenor of a Joint Board. The Regulations require the remuneration to be paid by the council of which the convenor or vice-convenor is a member. The council is also required to pay any pension contributions arising from the convenor or vice-convenor being a member of the Local Government Pension Scheme.

In 2018/19 the amount recharged to Lothian Valuation Joint Board for Councillor A McGuire, in respect of a vice-convenor position was £3,189 (£1,956 2017/18).

2.3 Total Councillors Remuneration

The council paid the following salaries, allowances and expenses to all councillors (including the senior councillors above) during the year:-

Type of Remuneration	2018/19 £'000	2017/18 £'000
Salaries	680	670
Allowances	11	13
Expenses	32	35
Total	**723**	**718**

The annual return of Councillors' salaries and expenses for 2018/19 is available for any member of the public to view at all Council Information Services Offices and Libraries during normal working hours and is also available on the council's website at http://www.westlothian.gov.uk/article/1956/Councillors-and-Wards.

2.4 **Council Leader, Provost and Senior Councillors Remuneration**

The following table provides details of the remuneration paid to the Council's Senior Councillors and remuneration paid to councillors with the responsibility of a convenor or vice-convenor of a Joint Board during 2018/19:-

Name	Post Title	Total Remuneration 2018/19 £	Total Remuneration 2017/18 £
Council Leader, Provost and Senior Councillor payments			
L Fitzpatrick	Leader of the Council	33,992	32,165
T Kerr	Provost (Civic Leader)	26,362	25,993
H Cartmill	Executive Post - Health and Social Care	24,785	23,272
T Conn	Executive Post - Environment	24,785	24,357
D King	Executive Post - Culture and Leisure (Depute Provost)	24,785	24,616
C Muldoon	Executive Post - Development and Transport	24,785	24,357
C Horne	Chair of Audit Committee	24,785	21,620
D Timson	Chair of Governance and Risk Committee	24,785	21,620
K Sullivan	Executive Post - Voluntary Organisations	24,785	21,878
CJ Kennedy	Chair of Development Management Committee	24,785	21,878
A Doran	Executive Post - Social Policy	24,785	21,878
D Dodds	Executive Post - Education	24,785	23,532
G Paul	Executive Post - Services for the Community	24,785	24,357
A McGuire[1]	Lothian Valuation Joint Board	20,183	17,227
P Heggie	Chair of Licensing Committee	24,785	21,620
Total		**377,957**	**350,370**

1. West Lothian appointee on Lothian Valuation Joint Board. The amount recharged to Lothian Valuation Joint Board in 2018/19 was £3,189 (£1,956 2017/18) in respect of Councillor A McGuire.

A small number of matters are reserved to full council. Regulatory business and scrutiny are remitted to a number of committees with specific and limited powers. Responsibility for management and operational issues is delegated to council officers.

The main powers to make policy and take significant decisions are held by Council Executive and Education Executive. Education Executive deals with education business. It has 18 councillor members and 6 non-councillors representing churches, teaching staff and parent councils. Council Executive holds all other significant decision-making powers. It is chaired by the Leader of the Council and has 13 members. The Leader of the Council and 8 Executive Councillors have additional responsibilities in relation to defined portfolios of services and also chair Policy Development and Scrutiny Panels, which are working groups which consider new and revised strategies and policies before they are sent for decision at Council Executive or Education Executive.

3. SENIOR EMPLOYEES

3.1 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/148 sets the amount of salary for the Chief Executive of West Lothian Council for the period 2018/19.

The salaries of the Depute Chief Executives are based on the nearest point on the national spinal column for Chief Officers, which equates to 87 per cent of the Chief Executive's salary in three spinal column points. Heads of Service are paid across two pay grades of three spinal column points. These pay grades are based on the nearest point on the national spinal column for Chief Officers which equates to one pay grade of 65 per cent and one of 72 per cent of the Chief Executives salary. Placing on the pay grade for Heads of Service is based on the outcome of a job evaluation exercise.

These pay arrangements were agreed through approval of the Organisational Review Report at a meeting of the Policy, Partnership and Resources Committee on 6 February 2002.

The West Lothian Integration Joint Board was legally established on 21 September 2015 and J Forrest was formally appointed as Chief Officer on 16 February 2016. The Depute Chief Executive / Chief Officer West Lothian Integration Joint Board is a joint appointment and the terms and conditions, including pay for the post, are set by NHS Lothian, who employ the post holder directly.

3.2 Senior Employees Remuneration

The senior employees included in the table are any local authority employee:

- Who has responsibility for management of the local authority to the extent that the person has power to direct or control the major activities of the council,
- Who holds a post that is politically restricted by reason of section 2(1)(a), (b) or (c) of the Local Government and Housing Act 1989, or
- Whose annual remuneration is £150,000 or more.

The full year equivalent salary has been provided for senior employees who have been in post for part year during 2018/19.

Name and Post Title	Full Year Equivalent Salary £	Total Remuneration 2018/19 £	Total Remuneration 2017/18 £
G Hope[1] Chief Executive	-	138,605	142,503
J Forrest[2] Depute Chief Executive / Chief Officer West Lothian Integration Joint Board	107,180	53,590	51,534
R G Struthers Depute Chief Executive	-	119,393	117,792
E Cook Depute Chief Executive	-	119,393	117,792
D Forrest Head of Finance and Property Services	-	97,628	96,028
J Jack Head of Operational Services	-	90,369	88,769
A Shaw Head of Housing, Customer and Building Services (until 2 December 2018)	90,369	69,229	88,769
A M Carr Head of Housing, Customer and Building Services (from 3 December 2018)	86,735	74,361	-
C McCorriston Head of Planning, Economic Development and Regeneration	-	90,369	88,769
J Whitelaw Head of Corporate Services	-	90,369	88,769
J Cameron Head of Education (Learning, Policy and Resources)	-	97,628	96,028
D McMaster Head of Education (Curriculum, Quality Improvement and Performance)	-	97,628	96,028
J Kellock Head of Social Policy (until 31 August 2018)	97,628	40,012	96,028
J MacPherson Head of Social Policy (from 27 August 2018)	86,735	79,338	-
Subsidiary **R Strang**[3] Chief Executive, West Lothian Leisure Ltd	-	84,110	82,510
Total		**1,342,022**	**1,251,319**

1. Remuneration includes returning officer payment of £1,997 in 2018/19 (2017/18 £7,495).
2. The Depute Chief Executive/Chief Officer West Lothian Integration Joint Board, J Forrest, is remunerated by the National Health Service (NHS) with West Lothian contributing 50% of his total cost of employment. The total pension contribution paid by WLC in relation to J Forrest in 2018/19 (2017/18) is £7,985 (£7,679).
3. The Chief Executive of West Lothian Leisure Ltd, Robin Strang, is remunerated by the council's subsidiary company, West Lothian Leisure Ltd. The Chief Executive will retire at the end of September 2019. WLL have accrued an amount of £85,792 within their 2018/19 financial statements for an additional payment made to the Chief Executive to be paid on his retirement. The payment was authorised by the WLL Board in line with the established governance structures in place at WLL. This payment has not been included in the exit packages summary table 3.4.
4. There were no compensation payments for loss of employment or annual compensation payments in 2018/19 or 2017/18.

3.3 **Employee Information by Pay Band**

The number of officers whose remuneration, including benefits, in the year were £50,000 or more is detailed below:-

Remuneration Bands	Number of Employees 2018/19	Number of Employees 2017/18
£50,000 - £54,999	96	82
£55,000 - £59,999	72	64
£60,000 - £64,999	29	25
£65,000 - £69,999	16	15
£70,000 - £74,999	11	5
£75,000 - £79,999	3	7
£80,000 - £84,999	6	1
£85,000 - £89,999	-	4
£90,000 - £94,999	3	-
£95,000 - £99,999	3	5
£100,000 - £104,999	-	-
£105,000 - £109,999	-	-
£110,000 - £114,999	-	-
£115,000 - £119,999	2	2
£120,000 - £124,999	-	-
£125,000 - £129,999	-	-
£130,000 - £134,999	-	-
£135,000 - £139,999	1	-
£140,000 - £144,999	-	1
Total	**242**	**211**

3.4 **Employee Exit Packages**

The number of employee exit packages with total cost per band is set out in the table below. There were no compulsory redundancies in 2017/18 or 2018/19.

Exit package Cost Range	Number of employee exit packages agreed		Total cost of employee exit packages in each band	
	2018/19	**2017/18**	**2018/19 £'000**	**2017/18 £'000**
£0 - £20,000	42	21	498	189
£20,001 - £40,000	26	4	663	122
£40,001 - £60,000	12	5	593	253
£60,001 - £80,000	8	-	537	-
£80,001 - £100,000	8	1	719	94
£100,001 - £150,000	4	-	487	-
Total	**100**	**31**	**3,497**	**658**

4. PENSIONS

4.1 Local Government Pension Scheme Details (LGPS)

Pension benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS).

Councillors' pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is adjusted by the increase in the cost of living, as measured by the appropriate index (or indices) between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees the LGPS changed on 1 April 2015 from a final salary pension scheme to a career average scheme. In the 2015 scheme, normal retirement age for both councillors and employees is equal to the member's state pension age subject to a minimum of 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

The members contribution rates for 2018/19 remain at the 2017/18 rates, however the ranges have changed as follows:

Whole time pay	Range 2018/19	Range 2017/18	Contribution rate 2018/19	Contribution rate 2017/18
On earnings up to and including	£21,300	£20,700	5.5%	5.5%
On earnings above	£21,300 and up to £26,100	£20,700 and up to £25,300	7.25%	7.25%
On earnings above	£26,100 and up to £35,700	£25,300 and up to £34,700	8.5%	8.5%
On earnings above	£35,700 and up to £47,600	£34,700 and up to £46,300	9.5%	9.5%
On earnings above	£47,600	£46,300	12.0%	12.0%

If a person 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.

The Local Government Pension Scheme changed on 1 April 2015 from a Final Salary to a Career Average Scheme. For each year in the Scheme from 1 April 2015, a scheme member builds up pension at 1/49ths of pensionable pay. The pension is built up in the member's Pension Account which is revalued each scheme year by HM Treasury Revaluation Order which is currently the Consumer Prices Index (CPI).

If an employee was a member of the Scheme prior to 1 April 2015, the benefits built up under the Final Salary arrangement will continue to be worked out on the member's final pay when leaving. For scheme membership up to 31 March 2015, the pension accrues at 1/60th of final pay at leaving. There is no automatic lump sum but annual pension can be swapped for a tax free lump sum. For scheme membership up to 31 March 2009, pension accrues on the basis of 1/80th of the member's final pay at leaving plus an automatic lump sum of 3 times the pension.

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.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

4.2 **Pension Benefits Senior Councillors - Local Government Pension Scheme (LGPS)**

The pension entitlements of Senior Councillors for the year to 31 March 2018 are shown in the table below, together with the contribution made by the council to each Senior Councillor's pension during the year.

Name	Post Title	In-year pension contributions		Accrued pension benefits			
		For year to 31 March 2019	For year to 31 March 2018	As at 31 March 2019		Difference from 31 March 2018	
		£	£	Pension £'000	Lump Sum £'000	Pension £'000	Lump Sum £'000
Council Leader, Provost and Senior Councillor contributions							
L Fitzpatrick	Leader of the Council	7,106	6,561	6	2	2	-
T Kerr	Provost (Civic Leader)	5,510	5,216	6	2	1	-
H Cartmill	Executive Post - Health and Social Care	5,180	4,747	3	-	1	-
T Conn	Executive Post - Environment	5,180	4,968	5	2	1	-
C Muldoon	Executive Post - Development and Transport (Depute Leader)	5,180	4,968	5	2	1	-
C Horne	Chair of Audit Committee	5,180	4,410	-	-	-	-
D Timson	Chair of Governance and Risk Committee	5,180	4,410	-	-	-	-
K Sullivan	Executive Post - Voluntary Organisations	5,180	4,463	-	-	-	-
CJ Kennedy	Chair of Development Management Committee	5,180	4,463	-	-	-	-
A Doran	Executive Post - Social Policy	5,180	4,463	-	-	-	-
D Dodds	Executive Post - Education	5,180	4,800	2	-	1	-
P Heggie	Chair of Licensing Committee	5,180	4,410	-	-	-	-
Total		**64,416**	**57,879**	**27**	**8**	**7**	**-**

All senior Councillors, under the age of 75, shown in the tables are members of the LGPS.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, including any service with a council subsidiary body, and not just their current appointment.

Councillors A McGuire and D King are not members of the LGPS. All Councillors under 75 years of age are eligible for participation in the LGPS.

4.3 **Pension Benefits Senior Employees - Local Government Pensions Scheme (LGPS)**

The pension entitlements of Senior Employees who are members of the LGPS for the year to 31 March 2019 are shown in the table below, together with the contribution made by the council to each Senior Employee's pension during the year.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

Name	Post Title	In-year pension contributions		Accrued pension benefits			
		For year to 31 March 2019	For year to 31 March 2018	As at 31 March 2019		Difference from 31 March 2018	
		£	£	Pension £'000	Lump Sum £'000	Pension £'000	Lump Sum £'000
G Hope[1]	Chief Executive	28,968	29,002	63	111	4	2
R G Struthers	Depute Chief Executive	24,953	24,029	51	88	4	2
E Cook	Depute Chief Executive	24,953	24,029	62	-	4	-
D Forrest	Head of Finance and Property Services	20,404	19,589	42	72	3	2
J Jack	Head of Operational Services	18,887	18,108	42	77	3	2
A Shaw	Head of Housing, Customer and Building Services (until 2 December 2018)	13,915	18,108	53	112	2	1
AM Carr	Head of Housing, Customer and Building Services (from 3 December 2018)	15,541	13,437	38	74	6	9
C McCorriston	Head of Planning, Economic Development and Regeneration	18,887	18,108	42	77	3	2
J Whitelaw	Head of Corporate Services	18,887	18,108	31	42	3	1
J Cameron	Head of Education (Learning, Policy and Resources)	20,404	19,589	71	-	4	-
D McMaster	Head of Education (Curriculum, Quality Improvement and Performance)	20,404	19,589	56	-	3	-
J Kellock	Head of Social Policy (until 31 August 2018)	8,362	19,589	32	46	2	1
J MacPherson	Head of Social Policy (from 27 August 2018)	16,582	13,437	38	72	8	13
Total		**251,147**	**254,722**	**621**	**771**	**49**	**35**

1. Chief Executive in-year contributions total includes pension benefits for Returning Officer duties.

4.4 **Facility Time Report 2018/19**

The Trade Union (Facility Time Publication Requirements) Regulations 2017 require the council to collect and publish a range of information on trade union (TU) facility time in respect of its employees who are TU representatives.

The information is summarised in the following table:

		Non-Teacher	Teacher
Number of employees who were relevant union officials during 2018/19		37	15
Number of FTE employees who were relevant union officials during 2018/19		36.74	15
Percentage of time spent on facility time	0%	9%	3%
	1% - 50%	24%	11%
	51% - 99%	3%	1%
	100%	1%	-
Percentage of pay bill spend on facility time	Total cost facility time	£197,758	£68,305
	Total pay bill	£126,221,162	£136,983,192
	Percentage of total pay bill on facility time	0.16%	0.05%
Paid trade union activities		4.75%	6.2%

Full details are available at https://www.westlothian.gov.uk/article/11827/Trade-Unions

Graham Hope
Chief Executive

24 September 2019

Councillor Lawrence Fitzpatrick
Leader of the Council

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT — STATEMENT 4

PURPOSE	The Comprehensive Income and Expenditure 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 (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

		2018/19			**2017/18**		
	Note	**Gross Expend £'000**	**Gross Income £'000**	**Net Expend £'000**	**Gross Expend £'000**	**Gross Income £'000**	**Net Expend £'000**
Schools, Education Support		251,469	14,514	236,955	235,948	10,060	225,888
Planning, Economic Development and Regeneration		13,259	5,163	8,096	15,533	5,345	10,188
Operational Services		87,853	8,763	79,090	81,548	8,966	72,582
Housing, Customer and Building Services		20,794	6,042	14,752	22,903	5,665	17,238
Corporate Services		2,246	1,068	1,178	1,779	585	1,194
Social Policy – IJB, Adult and Elderly Services		154,501	90,668	63,833	157,550	93,093	64,457
Social Policy – non-IJB Children's Services		41,196	4,271	36,925	40,568	4,761	35,807
Chief Executive, Finance and Property		45,253	5,258	39,995	35,558	4,965	30,593
Joint Boards		1,128	-	1,128	1,213	34	1,179
Other Services		73,573	54,125	19,448	56,985	56,904	81
Net Cost of General Fund Services		**691,272**	**189,872**	**501,400**	**649,585**	**190,378**	**459,207**
Housing Revenue Account		83,682	49,381	34,301	64,077	48,309	15,768
Net Cost of Services		**774,954**	**239,253**	**535,701**	**713,662**	**238,687**	**474,975**
Other Operating Expenditure	9	(2,252)	-	(2,252)	(2,427)	-	(2,427)
Finance and Investment Income and Expenditure	10	65,291	32,131	33,160	66,198	30,761	35,437
Taxation and Non-Specific Grant Income	11	-	402,956	(402,956)	-	397,904	(397,904)
Deficit on Provision of Services	5	**837,993**	**674,340**	**163,653**	**777,433**	**667,352**	**110,081**
Items that will not be reclassified to the Deficit on the Provision of Services							
Surplus on revaluation of property, plant and equipment				(32,059)			(18,077)
Remeasurement of the net defined benefit liability / (asset)				34,403			(111,938)
Items that may be reclassified to the Deficit on the Provision of Services				**2,344**			**(130,015)**
Deficit from investments in equity instruments designated at fair value through other comprehensive income				17			7
Other Comprehensive Income and Expenditure				**2,361**			**(130,008)**
Total Comprehensive Income and Expenditure				**166,014**			**(19,927)**

MOVEMENT IN RESERVES STATEMENT — STATEMENT 5

PURPOSE	The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable' reserves. The Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the Statutory General Fund Balance and Housing Revenue Account Balance Movements in year following those adjustments.

MOVEMENT IN RESERVES STATEMENT
AS AT 31 MARCH 2019

	Note	General Fund £'000	Housing Revenue Account £'000	Capital Fund £'000	Insurance Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Balance at 1 April 2017		**25,262**	**926**	**65,527**	**11,835**	**103,550**	**803,687**	**907,237**
Movement in Reserves during 2017/18								
Total comprehensive income and expenditure		(87,383)	(22,698)	-	-	(110,081)	130,008	19,927
Adjustments between accounting basis and funding basis under regulations	13	87,092	22,698	(9,339)	-	100,451	(100,451)	-
Net increase (decrease) before transfers to other statutory funds		(291)	-	(9,339)	-	(9,630)	29,557	19,927
Transfers to / (from) other statutory funds	12	(1,065)	-	2,775	(1,710)	-	-	-
Increase (decrease) in year		**(1,356)**	**-**	**(6,564)**	**(1,710)**	**(9,630)**	**29,557**	**19,927**
Balance at 31 March 2018		**23,906**	**926**	**58,963**	**10,125**	**93,920**	**833,244**	**927,164**
General Fund analysed over:								
Amounts Earmarked	34	**21,805**						
Amounts Uncommitted		**2,101**						
Total General Fund Balance at 31 March 2018		**23,906**						
Movement in Reserves during 2018/19								
Total comprehensive income and expenditure		(119,605)	(44,048)	-	-	(163,653)	(2,361)	(166,014)
Adjustments between accounting basis and funding basis under regulations	13	118,391	44,048	(2,013)	-	160,426	(160,426)	-
Net increase (decrease) before transfers to other statutory funds		(1,214)	-	(2,013)	-	(3,227)	(162,787)	(166,014)
Transfers (to) / from other statutory funds	12	(5,029)	-	4,763	266	-	-	-
Increase (decrease) in year		**(6,243)**	**-**	**2,750**	**266**	**(3,227)**	**(162,787)**	**(166,014)**
Balance at 31 March 2019		**17,663**	**926**	**61,713**	**10,391**	**90,693**	**670,457**	**761,150**
General Fund analysed over:								
Amounts Earmarked	34	**15,290**						
Amounts Uncommitted		**2,373**						
Total General Fund Balance at 31 March 2019		**17,663**						

BALANCE SHEET — STATEMENT 6

PURPOSE

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Fund that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), 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'.

LONG TERM ASSETS	**Note**	**As at 31 March 2019 £'000**	**As at 31 March 2018 £'000**
Property, Plant and Equipment			
- Council Dwelling		378,305	374,955
- Other Land and Buildings		1,005,036	1,034,287
- Vehicles, Plant, Furniture and Equipment		14,367	17,740
- Infrastructure Assets		231,995	219,005
- Community Assets		657	591
- Assets under construction		37,403	66,041
- Surplus Assets, not yet held for disposal		22,709	19,194
	14.1	1,690,472	1,731,813
Heritage Assets		779	779
Long Term Investments	15.1	553	270
TOTAL LONG TERM ASSETS		**1,691,804**	**1,732,862**
CURRENT ASSETS			
Short Term Investments	15.1	92,401	54,212
Inventories		1,505	1,045
Short Term Debtors	16	33,932	38,643
Cash and Cash Equivalents	26	26,086	30,947
Intangible Assets		461	639
TOTAL CURRENT ASSETS		**154,385**	**125,486**
CURRENT LIABILITIES			
Short Term Borrowing	15.1	(99,733)	(99,802)
Short Term Creditors	17	(72,721)	(63,227)
Provisions	18	(953)	(1,212)
Capital Grant Receipts in Advance	33	(21,855)	(14,740)
TOTAL CURRENT LIABILITIES		**(195,262)**	**(178,981)**
NET CURRENT ASSETS (LIABILITIES)		**(40,877)**	**(53,495)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,650,927**	**1,679,367**
LONG TERM LIABILITIES			
Long Term Creditors	19	(476)	(519)
Long Term Borrowing	15.1	(523,641)	(488,641)
Defined Benefit Scheme Liability	20.3	(279,676)	(202,413)
Other Long Term Liabilities	19	(85,984)	(60,630)
TOTAL LONG TERM LIABILITIES		**(889,777)**	**(752,203)**
TOTAL NET ASSETS		**761,150**	**927,164**
Financed by:			
USABLE RESERVES			
General Fund Balance	34	17,663	23,906
Housing Revenue Fund Balance		926	926
Capital Fund	21.2	61,713	58,963
Insurance Fund	21.1	10,391	10,125
TOTAL USABLE RESERVES		**90,693**	**93,920**
UNUSABLE RESERVES	22	**670,457**	**833,244**
TOTAL RESERVES		**761,150**	**927,164**

The unaudited accounts were considered by the Audit Committee on 24 June 2019 and the audited accounts were authorised for issue on 24 September 2019.

Donald Forrest

DONALD FORREST CPFA, Head of Finance and Property Services — **24 September 2019**

CASH FLOW STATEMENT — STATEMENT 7

PURPOSE	The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

	Note	2018/19 £'000	2017/18 £'000
Net Deficit on the provision of services		**(163,653)**	**(110,081)**
Adjustments to net deficit on the provision of services for non-cash movements	23	232,010	165,209
Net cash flows from Operating Activities		68,357	55,128
Net cash flows from Investing Activities	24	(134,217)	(21,314)
Net cash flows from Financing Activities	25	60,999	(17,951)
Net (decrease) / increase in cash and cash equivalents		**(4,861)**	**15,863**
Cash and cash equivalents at the beginning of the reporting period		**30,947**	**15,084**
Cash and cash equivalents at the end of the reporting period	26	**26,086**	**30,947**

1. ACCOUNTING POLICIES

General

The council is required to prepare Annual Accounts by the Local Authority Accounts (Scotland) Regulations 2014. Section 12 of the Local Government in Scotland Act 2003 requires they be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (The Code) supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted in the Annual Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

Revenue Transactions

The Revenue Accounts of the council are maintained on an accruals basis in accordance with the Code of Practice. That is, sums due to or from the council during the year are included, whether or not the cash has actually been received or paid in the year. Provision has been made for possible bad or doubtful debts in both the General Fund Account and Housing Revenue Account. There is no de minimis level for inclusion in the annual accounts for revenue transactions.

Where debtor balances for council tax are identified as impaired, the asset is written down and a charge made to the Financing and Investment Income in the Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment - Valuation

All expenditure on the acquisition, creation or enhancement of property, plant and equipment has been capitalised on an accruals basis.

Operational Property, plant and equipment have been included in the balance sheet at either existing use value or depreciated replacement cost, depending on whether or not there is assessed to be an active market for the assets being revalued. Assets Under Construction and Community Assets have been included at historical cost.

Surplus assets not yet available for sale have been included in the Balance Sheet on a fair value basis using the valuation techniques for level 2 inputs, i.e. open market value.

Plant, furniture and computer equipment costing below £6,000 are not treated as long term assets but are charged to the revenue account. This de minimis limit does not apply where certain categories of these assets are grouped together and form part of the approved capital programme.

Council houses have been valued at fair value using the Beacon Principle, existing use value for social housing, in accordance with the Royal Institution of Chartered Surveyors (RICS) Guidance. During 2015/16 the council houses were revalued by DM Hall LLP, an external firm of chartered surveyors.

Valuations have been provided by the council's Property Services and an external firm of chartered surveyors. Increases in valuations from 1 April 2007 have been credited to the Revaluation Reserve.

Property, Plant and Equipment - Capital Receipts

Receipts arising from the sale of property, plant and equipment are credited to capital receipts and used to finance new capital expenditure. These transactions are then credited to the capital adjustment account

Property, Plant and Equipment - Depreciation

Assets, other than land, are being depreciated using the straight line method over their useful economic lives as follows:-

- Council dwellings	50 years
- Council dwellings (Fixtures)	27 years
- Operational buildings	20 - 60 years
- Plant and equipment (Other)	10 - 25 years
- Plant and equipment (Books)	3 years
- Motor vehicles	4 - 10 years
- Fixtures and fittings	3 - 10 years
- Infrastructure assets	40 years

No depreciation is provided on Community Assets, Assets Under Construction, Surplus Assets not yet available for sale and Heritage Assets.

Under International Accounting Standard 16 (IAS 16), where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Significance is determined by comparing the cost of components against the overall cost of the asset. The significance threshold is set at £100,000 on assets with a value in excess of £1 million.

However, during 2018/19, all properties subject to material change in valuation; cemetery land, golf courses, landfill sites, bowling and putting greens, civic amenity sites, pitches, tennis courts, OAP pavilions and other pavilions were revalued. In total, they were collectively deemed to be significant in terms of their overall asset value and as such depreciation was charged on a componentised basis for all properties revalued as part of those groups.

The current policy of quinquennial revaluation will remain. However, in line with the requirements of the Code, only assets which were acquired, enhanced or revalued in 2018/19 had their useful lives updated.

In the case of council dwellings, fixtures are depreciated over 27 years with the non-fixture element of council dwellings being depreciated over 50 years.

Property, Plant and Equipment - Revaluation

Where decreases in value are identified, they are accounted for as follows:-

- 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 insufficient balance, the carrying amount is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

Property, Plant and Equipment - Impairment

Assets subject to revaluation that have suffered a reduction in value have been impaired. Where impairment losses are identified, they are accounted for as follows:-

- 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 insufficient balance, the carrying amount is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

Property, Plant and Equipment - Charges to Revenue

Service revenue accounts and the HRA have been charged with a capital charge for all Property, Plant and Equipment assets used in the provision of the service. Such charges cover the annual provision for depreciation.

Heritage Assets

Heritage assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. They are held by the council in pursuit of its overall objective in relation to the maintenance of heritage.

The council's Heritage Assets are held in various locations throughout the authority. There are two main categories of asset:- Artworks and Sculptures and Civic Regalia which includes Precious Metals, Fabric Items and Robes. All other assets are included in the Miscellaneous Other category.

As a general policy, Heritage Assets are recognised on the balance sheet where the cost or value of the asset is known. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, the asset is not recognised on the balance sheet.

There have been no acquisitions, donations, disposals, or council owned additions to the Heritage Asset portfolio during the financial year 2018/19.

The council's external valuer for its heritage assets (Bonhams – Fine Art Auctioneers and Valuers) carried out a valuation of the full collection as at 31 March 2017. These insurance valuations are updated on a quinquennial basis.

Improvement Grants

All expenditure on improvement and other grants is charged to revenue in the year the expenditure is incurred.

Government Grants and Contributions

Government grants are accounted for on an accruals basis and income has been credited, in the case of revenue grants, to the appropriate revenue account. Capital grants and contributions received to finance Property, Plant and Equipment assets have been credited to the Comprehensive Income and Expenditure Account. They are reversed out of the General Fund Balance in the Movement in Reserves Statement and transferred to the Capital Adjustment Account.

Amounts recognised as due to the council are not credited to the Comprehensive Income and Expenditure Statement and Capital Adjustment Account until conditions attached to each grant have been satisfied.

Monies advanced as revenue grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the revenue grants are credited to the service line in the Comprehensive Income and Expenditure Statement and, for capital grants, to the Capital Adjustment Account.

Redemption of Debt

The council operates a Consolidated Loans Fund under the terms of the Local Government (Scotland) Act 1975. All loans raised are paid into the fund. For 2017/18, the capital payments were attributed to specific assets and repaid over 40 years. For 2018/19 the Treasury Management Plan approved the proposal to adopt a repayment period of 35 years.

Premiums and discounts on debt rescheduling have been transferred to the Financial Instruments Adjustment Account and have been designated as statutory premiums and discounts under statutory guidance issued by the Scottish Government. The annual charge to the General Fund is managed by movements to and from the Financial Instruments Adjustment Account and the Movement on Reserves Statement.

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 twenty four hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the council's cash management.

Prior Period Adjustments

Prior Period Adjustments arise as a result of a change in accounting policy. Where a change is made it is applied retrospectively by adjusting opening balances and comparative amounts. There have been no prior period adjustments in 2018/19.

For 2017/18, there has been a reclassification adjustment of prior period comparative balances for consistency with 2018/19 balances following re-assessment of appropriateness of disclosure category.

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 Comprehensive Income and Expenditure Statement 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.

Borrowing

The amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, 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 Comprehensive Income and Expenditure Statement 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.

Creditors

Creditors are recognised when a supplier has provided goods and services to the council for an agreed price. The creditors recognised in the Balance Sheet represent the current value of the outstanding liabilities of the council as at 31 March as a proxy for amortised cost.

Financial Assets Investments

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. The amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Debtors

Debtors are recognised when goods and services have been provided by the council for an agreed price. The value of the debtors recognised in the Balance Sheet represents the current value of the outstanding asset of the Council as at 31 March as a proxy for amortised cost.

Expected Credit Loss Model

The council recognises expected credit losses on all of its financial assets held at amortised cost on a 12 month basis. The expected credit loss model also applies to lease receivables. Only lifetime losses are recognised for trade receivables (debtors) held by the council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remain slow, losses are assessed on the basis of 12 month expected losses.

Fair Value Measurement

The council measures its non-financial assets such as surplus assets not yet held for sale and financial instruments equity shareholdings at fair value at each reporting date using valuation techniques. When measuring the fair value of an asset the council assumes highest and best pricing. Inputs to the valuation techniques are categorised within the fair value hierarchy as follows:--

Level 1 – quoted prices in active markets for identical assets or liabilities that the authority can access at the measurement date.

Level 2 – inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – unobservable inputs for the asset or liability.

Financial Assets Measured at Fair Value through Profit of Loss (FVPL)

Financial assets that are measured at FVPL 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. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The council holds no assets under this classification.

Financial Assets Measured at Fair through other comprehensive income (FVOCI)

The Council holds an equity investment in Lothian Buses Limited. The investment is held for strategic purposes. Under IFRS9 the council designates that this investment be classified as being measured at Fair Value through Other Comprehensive Income. Any gain or loss on this investment will be held in the Financial Instrument Revaluation Reserve. The investment in Lothian Buses Limited has been shown in the Balance Sheet at fair value (Level 2 on the fair value hierarchy), based on the current share price multiplied by the council's shareholding.

External Interest Payable and Loans Fund Interest

External interest has been calculated and charged to the Income and Expenditure Account on an amortised cost basis over the life of the loan. For the majority of loans this represents the interest amount payable for the year per the loan agreement. However, for stepped LOBO loans, this results in a difference between the coupon rate and the amount charged to the Income and Expenditure Account. This difference is removed from the General Fund by a transfer to the Financial Instruments Adjustment Account

These accounting adjustments ensure that the loans fund interest is calculated and allocated to the Revenue Account in accordance with LASAAC Guidance Note No 2.

Interest on revenue balances is allocated on the basis of the monthly balances held on the respective accounts.

Reserves

The council operates the following reserves under Schedule 3 of the Local Government (Scotland) Act 1975.

General Fund - to ensure that sufficient funds are held in reserve to deal with the financial consequences of uncertain future events the council has agreed that the uncommitted General Fund Balance will be a minimum of £2 million.

Insurance Fund – this is the funding mechanism for the control of insurance risk and includes premiums and self-funding insurance costs. The fund covers all known insurance liabilities and is independently valued on a triennial basis.

Capital Fund – established to ensure that, following the introduction of the CIPFA Prudential Code for Capital Finance in Local Authorities in April 2004, borrowing decisions and capital programme management are based on Best Value considerations. General Fund treasury management balances in any given year will normally be transferred to or from the Capital Fund. The balance in the Capital Fund at 31 March 2019 was £61.713 million.

Revaluation Reserve

The Revaluation Reserve represents the net increase in the value of fixed assets as a result of these being shown in the Balance Sheet at revalued amounts rather than historical cost. The opening balance on the Revaluation Reserve at 1 April 2007 was zero. The balances on the former Fixed Asset Restatement Account and Capital Financing Account at 31 March 2007 were transferred into the Capital Adjustment Account.

Financial Instrument Revaluation Reserve (FIRR)

The FIRR represents the gains made by the council arising from increases in the value of its investments that are measured at Fair Value through Other Comprehensive Income. The balance is reduced when the investments are impaired downward or disposed of and gains realised.

Capital Adjustment Account

This account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation or impairment. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure.

Inventories

Stocks and stores held by the council are recorded at average cost, with the exception of Deer and Highland Cows which have been valued at net realisable value. The valuation is in accordance with IAS 41 - Agriculture. The use of average cost rather than lower of cost and net realisable value is a departure from the Code but is not considered material.

Central Support Services

Time recording systems and number of employees have been used as the bases for allocating costs to direct services, with the exception of the following:-

a) Administration Buildings - the number of employees based at each building

b) Central Telephone Service - based on number of extensions

c) Central Postal and Messenger Services - based on actual usage

d) HR Pay and Reward – based on employee numbers within each Service

Central Support Service charges allocated to the HRA and Building Services are a fixed amount agreed at the start of the financial year.

Revenue from Contracts with Customers

IFRS 15 has been applied from 1 April 2018 and is intended to enable users of the annual accounts to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts.

IFRS 15 replaces IAS 11 Construction Contracts, IAS 18 Revenue and includes all contracts with customers with the exception of leases, financial instruments, insurance contracts, council tax and non-domestic rate income.

The council income was assessed using a five step approach: Identification of the contract, identification of the performance obligations, identification of the contract price, allocation of the contract price and finally recognition of the revenue as the obligation is satisfied.

Following review of the council's income no material income streams required change to the revenue recognition applied. This resulted in no impact on the accounts, as well as no changes to disclosure requirements. All new income streams will be reviewed on an annual basis

Finance 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 lesser to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, these elements are considered separately for classification.

Assets acquired under finance leases have been capitalised together with a liability to pay outstanding rentals. Payments have been apportioned between the finance charge and the reduction of the outstanding obligation, with the finance charge being allocated and charged to revenue over the term of the lease.

Employee Benefits

An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements earned by employees but not taken before the year end and which employees can carry forward into the next financial year. The accrual is made at the remuneration rates applicable in the following financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Employee Statutory Adjustment Account in the Movement in Reserves Statement.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by an officer, in agreement with the council, to terminate their employment before the normal retirement date, or an officer's decision to accept voluntary severance. The costs are charged on an accruals basis to the Other Services line in the Comprehensive Income and Expenditure Statement. Where the 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 or pensioners and any such amounts payable but unpaid at the year-end.

Public Private Partnership (PPP) Design, Build, Finance and Maintain (DBFM)

The treatment of PPP and DBFM contracts, under International Financing Reporting Standards (IFRS) looks at aspects of control of an asset, such as specifying services and the price paid for these services. The PPP and DBFM schools are recognised as property assets, with recognition of a liability for the financing of these assets. The unitary charge paid to the contractor is allocated between operating costs, finance lease principal and interest, and any capitalised lifecycle costs.

Operating Leases

Current annual operating lease rentals have been charged to revenue.

Non-Domestic Rates (NDR)

Local authorities act as the agent of the Government when collecting NDR. The Code therefore requires local authorities not to recognise NDR debtors in their balance sheets but to instead recognise a creditor or debtor for cash collected from NDR debtors as agent of the Government but not paid or overpaid to the Government.

Pension Costs

The council participates in two different pension schemes which provide members with defined benefits related to pay and service and are as follows:-

Teachers: This is an unfunded scheme administered by the Scottish Government. Under the pensions accounting standard IAS 19 - 'Retirement Benefits' this scheme is treated as a defined contribution scheme as it does not allow the identification of liabilities consistently and reliably between participant authorities. The pension cost charged to the Accounts is the contribution rate set by HM Treasury on the basis of a notional fund.

Other Employees: Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (which is administered by the City of Edinburgh Council as the Lothian Pension Fund). The Lothian Pension Fund is a multi-employer scheme funded on the basis of triennial actuarial valuations of the required employers' contributions to ensure adequate assets in the scheme. As it is possible to identify the council's share of the assets and liabilities underlying the scheme on a consistent and reliable basis, it is accounted for as a defined benefit scheme under IAS 19.

IAS 19 is based on the premise that an organisation should account for retirement benefits when it is committed to give them, even if the actual payment will be many years in the future. The pension cost under IAS 19 is therefore not the cash contributions paid to the pension fund but the increase in the employers' attributable pensions liability during the year.

The IAS 19 actuarial valuation involves the actuary reviewing the most recent triennial actuarial valuation, updating it to reflect current conditions at the balance sheet date and apportioning assets and liabilities amongst employers. Assets are valued at fair value, principally bid value for investments. Liabilities are valued using the projected unit method which assesses the future liabilities of the fund discounted to their present value. The 2018/19 discount rate was 2.4% (2.7% 2017/18). The inclusion of attributable scheme assets and liabilities in the balance sheet represents an authority's commitment to increase contributions to make up any shortfall, or its ability to benefit, via reduced contributions, from a surplus in the scheme.

The actuary identifies the following elements of pension cost charged to the Income and Expenditure account:

Actuarial gains and losses – these consist of experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effect of actuarial assumption changes in regard to financial and demographic assumptions.

Current Service Cost - the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Net Defined Benefit Liability (asset) – the present value of the defined benefit obligation less the fair value of the plan assets.

Net interest Income (expense) – the change during the period in the net defined benefit liability (asset) that arises from the passage of time. This includes allowance for interest on the current service cost.

Past Service Costs – the change in the present value of the defined benefit obligation for employee service in prior periods resulting from a plan amendment.

Any difference between the accounting cost (i.e. the IAS 19 based cost) and the funding cost (i.e. the contributions or payments made during the year) is appropriated from the Pensions Reserve to the Movement in Reserves Statement. This appropriation ensures the IAS 19 pension cost equals the pension payments funded from taxation.

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 the Notes to the Annual Accounts. Details of the liabilities are shown in note 28.

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 obligation. Provisions are charged as an expense to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year the council becomes aware of the obligation, based on the best estimate of the likely settlement. 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 and appropriate adjustments made to the level of provision. Details of the provisions are detailed in note 18.

Carbon Reduction Commitment Scheme

The council was required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme, which ended on 31 March 2019. The allowances under the CRC Scheme are accounted for as current intangible assets. The Scheme will be replaced in 2019/20 by an uplift in the rate of the Climate Change Levy (CCL) included in VAT billing for energy consumption. Any balance of allowances remaining during 2019/20 will be made available to purchase by other councils remaining in the scheme through 2019/20.

VAT

Income and Expenditure excludes any amounts related to VAT, as all VAT collected and paid is payable to, or recoverable from, Her Majesty's Revenues and Customs (HMRC).

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

For 2018/19 the following accounting policy changes require to be reported as issued but not yet adopted by the code.

- Amendments to IAS 40 Investment Property: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
- IFRIC 22 Foreign Currency Transactions and Advance Consideration
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation

There is no impact of these changes on the accounts covering the 2018/19 financial year.

The 2019/20 Code will adopt IFRS16 Leases as a new standard and the council will adopt it with effect from 1 April 2020.

IFRS16 eliminates nearly all off balance sheet accounting for lessees as existing rules no longer apply for treating lease transactions as operating or finance leases.

All contracts that convey the right to use an asset for a period of time in exchange for consideration could meet the definition of a lease, and require to be examined. The council will continue to review its current lease portfolio in preparation for the new accounting requirements.

The implementation and compliance with IFRS16 is recognised as potentially significant for most leases.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in note 1, the council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the annual accounts are:

- PPP / DBFM - The council is deemed to control the services provided under the agreement for the provision of educational establishments in accordance with IFRC12. The council controls the services provided under the scheme and ownership of the schools will pass to the council at the end of the contract. The schools are therefore recognised on the council's balance sheet.

- Associates - The valuation joint board is included within the group accounts under the wider definition of an “associate” although the council holds less than 20% of voting rights that is normally presumed to confer significant influence. This is in view of the funding arrangements in place.

- Investment Properties - All property, plant and equipment is used on the delivery of services or as part of the council’s strategy for economic regeneration.

- Uncertainty over future funding - 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 reduction in funding.

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Annual Accounts contain estimated figures that are based on assumptions made by the Authority about the future or 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 Authority’s Balance Sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

PROVISIONS

Uncertainties: There is a varying degree of estimation uncertainty around all provisions accounted for in the financial statements due to the nature of when they are accounted for and the valuation of provisions at a point in time. At 31 March 2019 we do not consider there to be any provisions with estimation uncertainty that could materially impact the financial statements.

PENSIONS LIABILITY

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 salaries are projected to increase, changes in retirement ages, mortality rates and expected returns, on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied

Effect if actual results differ from assumptions: The following table shows the sensitivity of the results to the changes in the principal assumptions used to measure the scheme liabilities.

Sensitivities at 31 March 2019	Approx % increase to Employer Liability	Approx monetary amount £’000
0.5% decrease in Real Discount Rate	10%	139,956
0.5% increase in the Salary Increase Rate	2%	27,512
0.5% increase in the Pension rate	8%	109,176

For sensitivity purposes, we estimate that a one year increase in life expectancy would approximately increase the Employer’s Defined Benefit Obligation by around 3 - 5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).

FAIR VALUE MEASUREMENTS

Uncertainties: the fair values of Surplus Assets not yet available for sale and Financial Instruments cannot be measured based on quoted prices in active markets (i.e. Level 1 inputs), their fair value is measured using the following valuation technique;

Level 2 – quoted prices for similar assets or liabilities in active markets at the balance sheet date;

Where possible the inputs to these valuation techniques are based on observable data, but where this is not possible, judgement is required in establishing fair values. These judgements include considerations such as uncertainty and risk. Changes in the assumptions could affect the fair value of the council’s assets and liabilities.

Information about valuation techniques and inputs used in determining the fair value of these assets is set out in note 15.

Effect if actual results differ from assumptions: Significant changes in any of the observable inputs may result in a significantly lower or higher fair value measurement for assets and liabilities.

DEBTORS

Uncertainties: At 31 March 2019, the authority had a balance of debtors of £33.932 million. A review of balances suggested that an allowance for doubtful debts of £21.834 million was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.

Effect if actual results differ from assumptions: If collection rates were to deteriorate, a 10% increase in the amount of doubtful debts would require an additional £3.393 million to be set aside as an allowance.

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 8

5. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on Page 35.

EXPENDITURE AND FUNDING ANALYSIS FOR THE YEAR ENDED 31 MARCH 2019

	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments Between the Funding and Accounting Basis (Note 6) £'000	Net Expenditure In the Comprehensive Income and Expenditure Statement £'000
2017/18			
Schools, Education Support	143,080	82,808	225,888
Planning, Economic Development and Regeneration	4,784	5,404	10,188
Operational Services	58,665	13,917	72,582
Housing, Customer and Building Services	4,883	12,355	17,238
Corporate Services	11,081	(9,887)	1,194
Social Policy – IJB, Adult and Elderly Services	64,457	-	64,457
Social Policy – non-IJB, Children's Services	24,639	11,168	35,807
Chief Executive, Finance and Property	23,968	6,625	30,593
Joint Boards	1,179	-	1,179
Other Services	10,882	(10,801)	81
Net Cost of General Fund Services	**347,618**	**111,589**	**459,207**
Housing Revenue Account	-	15,768	15,768
Net Cost of Services	**347,618**	**127,357**	**474,975**
Other Income and Expenditure	(346,262)	(18,632)	(364,894)
Deficit	**1,356**	**108,725**	**110,081**
	General Fund	**HRA Fund**	**Total**
Opening General Fund and HRA Balance	**(25,262)**	**(926)**	**(26,188)**
Deficit on General Fund and HRA Balance in Year	1,356	-	1,356
Closing General Fund and HRA Balance as at 31 March	**(23,906)**	**(926)**	**(24,832)**
2018/19			
Schools, Education Support	145,032	91,923	236,955
Planning, Economic Development and Regeneration	5,019	3,077	8,096
Operational Services	61,956	17,134	79,090
Housing, Customer and Building Services	6,229	8,523	14,752
Corporate Services	11,122	(9,944)	1,178
Social Policy – IJB, Adult and Elderly Services	63,833	-	63,833
Social Policy – non-IJB, Children's Services	27,155	9,770	36,925
Chief Executive, Finance and Property	23,503	16,492	39,995
Joint Boards	1,128	-	1,128
Other Services	11,116	8,332	19,448
Net Cost of General Fund Services	**356,093**	**145,307**	**501,400**
Housing Revenue Account	-	34,301	34,301
Net Cost of Services	**356,093**	**179,608**	**535,701**
Other Income and Expenditure	(349,850)	(22,198)	(372,048)
Deficit	**6,243**	**157,410**	**163,653**
	General Fund	**HRA Fund**	**Total**
Opening General Fund and HRA Balance	**(23,906)**	**(926)**	**(24,832)**
Deficit on General Fund and HRA Balance in Year	6,243	-	6,243
Closing General Fund and HRA Balance as at 31 March	**(17,663)**	**(926)**	**(18,589)**

Notes 12 and 13 to the Movement in Reserves Statement provide details of the Adjustments between accounting and funding basis and transfers to and from other Statutory Reserves

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 8

6. NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts

	Adjustments for Capital Purposes (Note 6.1) £'000	Net change for the Pensions Adjustments (Note 6.2) £'000	Other Differences (Note 6.3) £'000	Total Adjustments £'000
Adjustments between Funding and Accounting Basis 2017/18				
Schools, Education Support	76,024	3,782	3,002	82,808
Planning, Economic Development and Regeneration	3,520	645	1,239	5,404
Operational Services	7,812	4,023	2,082	13,917
Housing, Customer and Building Services	5,066	2,700	4,589	12,355
Corporate Services	6,092	1,153	(17,132)	(9,887)
Social Policy – non-IJB, Children's Services	2,831	4,796	3,541	11,168
Chief Executive, Finance and Property	7,363	1,328	(2,066)	6,625
Other Services	(788)	(2,117)	(7,896)	(10,801)
Net Cost of General Fund Services	**107,920**	**16,310**	**(12,641)**	**111,589**
Housing Revenue Account	28,552	-	(12,784)	15,768
Net Cost of Services	**136,472**	**16,310**	**(25,425)**	**127,357**
Other income and expenditure from the Expenditure and Funding Analysis	(46,683)	7,751	20,300	(18,632)
Difference between General Fund deficit and Comprehensive Income and Expenditure Statement deficit on the Provision of Services	**89,789**	**24,061**	**(5,125)**	**108,725**
Adjustments between Funding and Accounting Basis 2018/19				
Schools, Education Support	77,818	4,217	9,888	91,923
Planning, Economic Development and Regeneration	580	669	1,828	3,077
Operational Services	10,277	4,226	2,631	17,134
Housing, Customer and Building Services	3	2,880	5,640	8,523
Corporate Services	5,833	1,256	(17,033)	(9,944)
Social Policy – non-IJB, Children's Services	(316)	5,090	4,996	9,770
Chief Executive, Finance and Property	19,025	1,374	(3,907)	16,492
Other Services	(144)	17,205	(8,729)	8,332
Net Cost of General Fund Services	**113,076**	**36,917**	**(4,686)**	**145,307**
Housing Revenue Account	48,477	-	(14,176)	34,301
Net Cost of Services	**161,553**	**36,917**	**(18,862)**	**179,608**
Other income and expenditure from the Expenditure and Funding Analysis	(45,405)	5,943	17,264	(22,198)
Difference between General Fund deficit and Comprehensive Income and Expenditure Statement deficit on the Provision of Services	**116,148**	**42,860**	**(1,598)**	**157,410**

6.1. Adjustments for Capital Purposes

This column adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

6.2. Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statue and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

6.3 **Other Differences**

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- For **Financing and investment income and expenditure** – the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under **Taxation and non-specific grant income and expenditure** – represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.
- Transfers to or from other statutory funds.

7. EXPENDITURE AND INCOME ANALYSED BY SEGMENT AND NATURE

The authority's expenditure and income is analysed as follows:

2017/18	Schools with Education Support £'000	Planning, Economic Development and Regeneration £'000	Operational Services £'000	Housing, Customer and Building Services £'000	Corporate Services £'000	Social Policy - IJB, Adult and Elderly Services £'000	Social Policy - non IJB, Children's Services £'000
Expenditure							
Employee Expenses	129,156	6,501	35,087	11,454	2,073	27,933	18,409
Other Services Expenses	23,853	4,137	34,660	1,748	571	126,803	18,354
Support Services	6,144	1,374	3,868	4,632	(6,957)	-	3,742
Depreciation, Amortisation, Impairment	76,795	3,521	7,933	5,069	6,092	2,814	63
Interest Payments	-	-	-	-	-	-	-
Gain on the disposal of non-current assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Expenditure	**235,948**	**15,533**	**81,548**	**22,903**	**1,779**	**157,550**	**40,568**
Income							
Fees, Charges and Other Service Income	5,008	5,345	8,966	5,665	585	93,093	2,318
Interest and Investment Income	-	-	-	-	-	-	-
Income from Council Tax	-	-	-	-	-	-	-
Government Grants and Contributions	5,052	-	-	-	-	-	2,443
Total Income	**10,060**	**5,345**	**8,966**	**5,665**	**585**	**93,093**	**4,761**
Deficit on Provision of Services	**225,888**	**10,188**	**72,582**	**17,238**	**1,194**	**64,457**	**35,807**

	Chief Executive, Finance and Property £'000	Joint Boards £'000	Other Services £'000	Housing Revenue Account £'000	Cost of Services £'000	Not included in Cost of Services £'000	Total £'000
Expenditure							
Employee Expenses	5,797	-	(185)	4,375	**240,600**	89	**240,689**
Other Services Expenses	21,637	1,213	56,690	23,027	**312,693**	889	**313,582**
Support Services	4,135	-	480	-	**17,418**	863	**18,281**
Depreciation, Amortisation, Impairment	3,989	-	-	36,675	**142,951**	3,375	**146,326**
Interest Payments	-	-	-	-	**-**	60,982	**60,982**
Gain on the disposal of non-current assets	-	-	-	-	**-**	(2,427)	**(2,427)**
Total Expenditure	**35,558**	**1,213**	**56,985**	**64,077**	**713,662**	**63,771**	**777,433**
Income							
Fees, Charges and Other Service Income	4,965	34	56,904	48,309	**231,192**	4,581	**235,773**
Interest and Investment Income	-	-	-	-	**-**	26,180	**26,180**
Income from Council Tax	-	-	-	-	**-**	65,580	**65,580**
Government Grants and Contributions	-	-	-	-	**7,495**	332,324	**339,819**
Total Income	**4,965**	**34**	**56,904**	**48,309**	**238,687**	**428,665**	**667,352**
Deficit on Provision of Services	**30,593**	**1,179**	**81**	**15,768**	**474,975**	**(364,894)**	**110,081**

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 8

7. EXPENDITURE AND INCOME ANALYSED BY SEGMENT AND NATURE (CONTINUED)

The authority's expenditure and income is analysed as follows:

2018/19	Schools with Education Support £'000	Planning, Economic Development and Regeneration £'000	Operational Services £'000	Housing, Customer and Building Services £'000	Corporate Services £'000	Social Policy - IJB, Adult and Elderly Services £'000	Social Policy - non IJB, Children's Services £'000
Expenditure							
Employee Expenses	141,324	6,151	37,009	11,996	2,759	29,542	18,717
Other Services Expenses	25,256	4,571	36,365	3,173	388	124,623	17,810
Support Services	6,253	1,956	3,997	5,619	(6,734)	-	4,905
Depreciation, Amortisation, Impairment	78,636	581	10,482	6	5,833	336	(236)
Interest Payments	-	-	-	-	-	-	-
Gain on the disposal of non-current assets	-	-	-	-	-	-	-
Total Expenditure	**251,469**	**13,259**	**87,853**	**20,794**	**2,246**	**154,501**	**41,196**
Income							
Fees, Charges and Other Service Income	7,631	5,163	8,763	6,042	1,068	90,668	1,642
Interest and Investment Income	-	-	-	-	-	-	-
Income from Council Tax	-	-	-	-	-	-	-
Government Grants and Contributions	6,883	-	-	-	-	-	2,629
Total Income	**14,514**	**5,163**	**8,763**	**6,042**	**1,068**	**90,668**	**4,271**
Deficit on Provision of Services	**236,955**	**8,096**	**79,090**	**14,752**	**1,178**	**63,833**	**36,925**

	Chief Executive, Finance and Property £'000	Joint Boards £'000	Other Services £'000	Housing Revenue Account £'000	Cost of Services £'000	Not included in Cost of Services £'000	Total £'000
Expenditure							
Employee Expenses	6,005	-	19,125	4,404	**277,032**	57	**277,089**
Other Services Expenses	20,740	1,128	53,870	23,168	**311,092**	949	**312,041**
Support Services	1,238	-	578	-	**17,812**	1,032	**18,844**
Depreciation, Amortisation, Impairment	17,270	-	-	56,110	**169,018**	1,762	**170,780**
Interest Payments	-	-	-	-	**-**	61,491	**61,491**
Gain on the disposal of non-current assets	-	-	-	-	**-**	(2,252)	**(2,252)**
Total Expenditure	**45,253**	**1,128**	**73,573**	**83,682**	**774,954**	**63,039**	**837,993**
Income							
Fees, Charges and Other Service Income	5,258	-	54,125	49,381	**229,741**	4,564	**234,305**
Interest and Investment Income	-	-	-	-	**-**	27,567	**27,567**
Income from Council Tax	-	-	-	-	**-**	68,886	**68,886**
Government Grants and Contributions	-	-	-	-	**9,512**	334,070	**343,582**
Total Income	**5,258**	**-**	**54,125**	**49,381**	**239,253**	**435,087**	**674,340**
Deficit on Provision of Services	**39,995**	**1,128**	**19,448**	**34,301**	**535,701**	**(372,048)**	**163,653**

NOTES TO THE ANNUAL ACCOUNTS STATEMENT 8

8. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT - SERVICE INCOME AND EXPENDITURE STATEMENT INCLUDING INTERNAL RECHARGES

The service lines in the Comprehensive Income and Expenditure Statement exclude internal recharges. These were eliminated in the Expenditure and Funding Analysis. The income and expenditure for each service, inclusive of internal recharges, are shown below.

	2018/19			2017/18		
	Gross Expend £'000	Gross Income £'000	Net Expend £'000	Gross Expend £'000	Gross Income £'000	Net Expend £'000
Schools, Education Support	251,469	14,514	236,955	235,948	10,060	225,888
Planning, Economic Development and Regeneration	13,298	5,202	8,096	15,571	5,383	10,188
Operational Services	94,855	15,765	79,090	88,241	15,659	72,582
Housing, Customer and Building Services	48,063	33,311	14,752	48,783	31,545	17,238
Corporate Services	23,571	22,393	1,178	23,123	21,929	1,194
Social Policy – IJB, Adult and Elderly Services	154,501	90,668	63,833	157,550	93,093	64,457
Social Policy – non-IJB Children's Services	41,196	4,271	36,925	40,568	4,761	35,807
Chief Executive, Finance and Property	65,501	25,506	39,995	51,686	21,093	30,593
Joint Boards	1,128	-	1,128	1,213	34	1,179
Other Services	73,573	54,125	19,448	56,985	56,904	81
Cost of General Fund Services	767,155	265,755	501,400	719,668	260,461	459,207
HRA	83,682	49,381	34,301	64,077	48,309	15,768
Net Cost of Services	**850,837**	**315,136**	**535,701**	**783,745**	**308,770**	**474,975**

9. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT - OTHER OPERATING EXPENDITURE

	2018/19 £'000	2017/18 £'000
Gain on disposal of non-current assets	**2,252**	**2,427**

10. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT - FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2018/19 £'000	2017/18 £'000
Interest payable and similar charges	29,594	28,629
Net interest on the defined benefit liability (asset)	5,943	7,751
Interest receivable and similar income	(1,613)	(1,578)
(Surplus) / Deficit on trading operations	(764)	635
	33,160	**35,437**

11. COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT - TAXATION AND NON-SPECIFIC GRANT INCOME

	2018/19 £'000	2017/18 £'000
Council tax income	68,886	65,580
Non-domestic rates distribution	79,333	90,056
Non-ring-fenced government grants	228,874	213,469
Capital grants and contributions	25,863	28,799
	402,956	**397,904**

12. MOVEMENT IN RESERVES STATEMENT - TRANSFERS TO OR (FROM) OTHER STATUTORY RESERVES - 2017/18

	General Fund £'000	HRA £'000	Capital Fund £'000	Insurance Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Transfer (to) / from Insurance Fund	1,710	-	-	(1,710)	-	-	-
Transfer (to) / from Capital Fund	(2,775)	-	2,775	-	-	-	-
	(1,065)	**-**	**2,775**	**(1,710)**	-	-	-
TRANSFERS TO OR (FROM) OTHER STATUTORY RESERVES - 2018/19							
Transfer (to) / from Insurance Fund	(266)	-	-	266	-	-	-
Transfer (to) / from Capital Fund	(4,763)	-	4,763	-	-	-	-
	(5,029)	**-**	**4,763**	**266**	-	-	-

NOTES TO THE ANNUAL ACCOUNTS STATEMENT 8

13. MOVEMENT IN RESERVES STATEMENT - ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2017/18	General Fund £'000	HRA £'000	Capital Fund £'000	Insurance Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Depreciation and impairment of non-current assets	109,554	36,772	-	-	146,326	(146,326)	-
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(28,799)	-	-	-	(28,799)	28,799	-
Gain on disposal of non-current assets	(893)	(1,534)	-	-	(2,427)	2,427	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(430)	-	-	-	(430)	430	-
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under pension scheme regulations	23,849	212	-	-	24,061	(24,061)	-
Statutory provision for repayment of debt	(10,848)	(4,609)	-	-	(15,457)	15,457	-
Statutory charge for lifecycle capital (PFI)	(177)	-	-	-	(177)	177	-
Capital expenditure charged to the General Fund and HRA	(1,554)	(8,123)	-	-	(9,677)	9,677	-
Net transfer to / (from) earmarked reserves required by legislation (i.e. holiday pay accrual)	(3,610)	(20)	-	-	(3,630)	3,630	-
Capital receipts transferred to the Capital Fund	-	-	(9,339)	-	(9,339)	9,339	-
	87,092	**22,698**	**(9,339)**	**-**	**100,451**	**(100,451)**	**-**

2018/19	General Fund £'000	HRA £'000	Capital Fund £'000	Insurance Fund £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Council Reserves £'000
Depreciation and impairment of non-current assets	114,570	56,210	-	-	170,780	(170,780)	-
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement	(25,863)	-	-	-	(25,863)	25,863	-
Gain on disposal of non-current assets	(2,117)	(135)	-	-	(2,252)	2,252	-
Amount by which finance costs calculated in accordance with the Code are different from the amount of finance costs calculated in accordance with statutory requirements	(427)	-	-	-	(427)	427	-
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS 19) are different from the contributions due under pension scheme regulations	42,177	683	-	-	42,860	(42,860)	-
Statutory provision for repayment of debt	(12,204)	(5,086)	-	-	(17,290)	17,290	-
Statutory charge for lifecycle capital (PFI)	(119)	-	-	-	(119)	119	-
Capital expenditure charged to the General Fund and HRA	(1,475)	(7,633)	-	-	(9,108)	9,108	-
Net transfer to / (from) earmarked reserves required by legislation (i.e. holiday pay accrual)	3,849	9	-	-	3,858	(3,858)	-
Capital receipts transferred to the Capital Fund	-	-	(2,013)	-	(2,013)	2,013	-
	118,391	**44,048**	**(2,013)**	**-**	**160,426**	**(160,426)**	**-**

14. PROPERTY, PLANT AND EQUIPMENT

14.1 **Movements in 2017/18**

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000
Cost or Valuation				
At 1 April 2017	**414,444**	**1,156,362**	**71,288**	**266,614**
Additions	18,892	27,283	6,610	13,161
Revaluation increases / (decreases) recognised in the Revaluation Reserve	556	9,623	-	-
Revaluation increases / (decreases) recognised in the Deficit on the Provision of Services	(19,062)	(2,735)	-	-
Derecognition - disposals	(2,780)	(183)	(98)	-
Other movements in cost or valuation	10,434	26,081	109	1,492
At 31 March 2018	**422,484**	**1,216,431**	**77,909**	**281,267**
Accumulated Depreciation and Impairment				
At 1 April 2017	**31,453**	**101,102**	**52,001**	**55,395**
Depreciation charge	16,289	88,644	8,157	6,867
Depreciation written out to the Revaluation Reserve	-	(6,685)	-	-
Depreciation written out to the Deficit on the Provision of Services	-	(862)	-	-
Derecognition – disposals	(213)	(9)	(98)	-
Other movements in depreciation and impairment	-	(46)	109	-
At 31 March 2018	**47,529**	**182,144**	**60,169**	**62,262**
Net Book Value At 31 March 2018	**374,955**	**1,034,287**	**17,740**	**219,005**
At 31 March 2017	**382,991**	**1,055,260**	**19,287**	**211,219**

	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000
Cost or Valuation				
At 1 April 2017	**570**	**72,055**	**23,187**	**2,004,520**
Additions	-	32,244	-	98,190
Revaluation increase / (decreases) recognised in the Revaluation Reserve	88	-	1,948	12,215
Revaluation increases / (decreases) recognised in the Deficit on the Provision of Services	(247)	-	(5,187)	(27,231)
Derecognition - disposals	(742)	-	(83)	(3,886)
Other movements in cost or valuation	922	(38,258)	(671)	109
At 31 March 2018	**591**	**66,041**	**19,194**	**2,083,917**
Accumulated Depreciation and Impairment				
At 1 April 2017	-	-	-	**239,951**
Depreciation charge	-	-	-	119,957
Depreciation written out to the Revaluation Reserve	(46)	-	-	(6,731)
Depreciation written out to the Deficit on the Provision of Services	-	-	-	(862)
Derecognition - disposals	-	-	-	(320)
Other movements in depreciation and impairment	46	-	-	109
At 31 March 2018	**-**	**-**	**-**	**352,104**
Net Book Value At 31 March 2018	**591**	**66,041**	**19,194**	**1,731,813**
At 31 March 2017	**570**	**72,055**	**23,187**	**1,764,569**

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 8

14.1 **Movements in 2018/19**

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant, Furniture and Equipment £'000	Infra-structure Assets £'000
Cost or Valuation				
At 1 April 2018	422,484	1,216,431	77,909	281,267
Additions	27,225	39,166	4,458	11,816
Revaluation increase / (decreases) recognised in the Revaluation Reserve	69	16,371	-	-
Revaluation increases / (decreases) recognised in the Deficit on the Provision of Services	(38,553)	(6,841)	-	-
Derecognition - disposals	(919)	(1,170)	(105)	-
Other movements in cost or valuation	32,087	(2,538)	-	8,416
At 31 March 2019	**442,393**	**1,261,419**	**82,262**	**301,499**
Accumulated Depreciation and Impairment				
At 1 April 2018	**47,529**	**182,144**	**60,169**	**62,262**
Depreciation charge	16,559	93,262	7,831	7,242
Depreciation written out to the Revaluation Reserve	-	(16,317)	-	-
Depreciation written out to the Deficit on the Provision of Services	-	(605)	-	-
Derecognition - disposals	-	(146)	(105)	-
Other movements in depreciation and impairment	-	(1,955)	-	-
At 31 March 2019	**64,088**	**256,383**	**67,895**	**69,504**
Net Book Value At 31 March 2019	**378,305**	**1,005,036**	**14,367**	**231,995**
At 31 March 2018	**374,955**	**1,034,287**	**17,740**	**219,005**

	Community Assets £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000
Cost or Valuation				
At 1 April 2018	**591**	**66,041**	**19,194**	**2,083,917**
Additions	-	15,718	-	98,383
Revaluation increase / (decreases) recognised in the Revaluation Reserve	66	-	(1,602)	14,904
Revaluation increases / (decreases) recognised in the Deficit on the provision of Services	-	-	(121)	(45,515)
Derecognition - disposals	-	-	(1,153)	(3,347)
Other movements in cost or valuation	-	(44,356)	6,391	-
At 31 March 2019	**657**	**37,403**	**22,709**	**2,148,342**
Accumulated Depreciation and Impairment				
At 1 April 2018	-	-	-	**352,104**
Depreciation charge	-	-	976	125,870
Depreciation written out to the Revaluation Reserve	-	-	(2,931)	(19,248)
Depreciation written out to the Deficit on the Provision of Services	-	-	-	(605)
Derecognition – disposals	-	-	-	(251)
Other movements in depreciation and impairment	-	-	1,955	-
At 31 March 2019	**-**	**-**	**-**	**457,870**
Net Book Value At 31 March 2019	**657**	**37,403**	**22,709**	**1,690,472**
At 31 March 2018	**591**	**66,041**	**19,194**	**1,731,813**

14.2 **Property, Plant and Equipment - PPP and DBFM Schools**

The value of assets held under two PPP contracts and a DBFM contract are as follows:-

	2018/19 £'000	2017/18 £'000
Value as at 1 April	164,251	164,074
Additions	33,015	177
Value as at 31 March	**197,266**	**164,251**
Aggregate Depreciation		
Value as at 1 April	31,212	15,603
Charge for year	16,054	15,609
Value as at 31 March	**47,266**	**31,212**
Net Book Value		
As at 31 March	**150,000**	**133,039**

14.3 **Financial Liabilities - PPP and DBFM Schools**

The value of financial liabilities resulting from PPP and DBFM contracts are as follows:-

	2018/19 £'000	2017/18 £'000
As at 1 April	**63,072**	**65,464**
Additions	29,094	-
Principal repayments	(2,950)	(2,392)
As at 31 March	**89,216**	**63,072**
Split		
Short term Creditors	3,232	2,442
Long term Creditors	85,984	60,630
	89,216	**63,072**

14.4 **Capital Expenditure and Capital Financing**

The total amount of capital expenditure incurred in the year is shown in the table below together with resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed.

	2018/19		2017/18	
	£'000	**£'000**	**£'000**	**£'000**
Opening Capital Financing Requirement		**681,977**		**652,361**
Capital Investment				
Property, Plant and Equipment		98,383		98,190
		780,360		**750,551**
Sources of Finance				
Capital Receipts	(5,268)		(14,464)	
Government Grants	(22,665)		(24,889)	
Contributions from Other Bodies	(3,198)		(3,910)	
Capital Financed from Current Revenue	(9,108)		(9,677)	
Long Term Debtors	-		-	
Finance Lease Principal (incl. PPP)	(3,179)		(2,676)	
Loans Fund Principal	(14,230)	**(57,648)**	(12,958)	**(68,574)**
Closing Capital Financing Requirement		**722,712**		**681,977**
Increase in Capital Financing Requirement		**40,735**		**29,616**

14.5 Fixed Asset Valuation

For assets included in the balance sheet at current value the undernoted valuation details apply:-

Date of Valuation	Council Dwellings £'000	Other Land and Buildings £'000	Surplus Assets £'000	Total £'000
1 April 2014	3,737	105,179	2,940	111,856
1 April 2015	369,738	454,058	150	823,946
1 April 2016	(35,924)	429,810	125	394,011
1 April 2017	1,990	131,512	18,626	152,128
1 April 2018	69	161,891	4,519	166,479
	339,610	1,282,450	26,360	1,648,420
Net historical cost alterations	102,783	400,790	(3,651)	499,922
Gross Valuation	**442,393**	**1,683,240**	**22,709**	**2,148,342**

Valuations of the above categories of assets were undertaken over a five year rolling programme by Chartered Surveyors of the council's Property Services Unit, in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors. The housing stock valuation at 1 April 2015, was carried out by D.M. Hall LLP, an external firm of chartered surveyors and included all Council Housing Stock.

Properties regarded by the council as operational were valued on the current value basis of open market value for the existing use or, where this could not be assessed because there was no market for the subject asset, the depreciated replacement cost. The major components of each building are separately identified in the Plant and Equipment category and depreciated based on the assessed useful life of each component. The accounting policy for Componentisation is as detailed in Statement 8 note 1.

Plant and machinery for heating and lighting purposes is included in the valuation of the buildings, however items of specialised plant have been shown separately at depreciated historic cost. Non-operational assets have been valued on a fair value basis using the valuation techniques for level 2 inputs, i.e. open market value.

For assets other than those valued at 1 April 2018 the council considers that there is no permanent material change in value in 2018/19.

14.6 Depreciation

Assets other than land are being depreciated using the straight line method over their useful economic lives as follows:-

Council Dwellings	50 Years
Council Dwellings (Fixtures)	27 Years
Operational Buildings	20 - 60 Years
Plant and Equipment (Other)	10 - 25 Years
Plant and Equipment (Books)	3 Years
Motor Vehicles	4 - 10 Years
Fixtures and Fittings	3 - 10 Years
Infrastructure	40 Years

No depreciation is charged on community assets, heritage assets, assets under construction and surplus assets not yet available for sale.

The total depreciation charge for 2018/19 was £125.870 million (£119.957 million 2017/18).

14.7 Capital Commitments

At 31 March 2019 the council has commitments on capital contracts of £5.301 million (£35.007 million 2017/18) for the Housing Programme and £4.498 million (£8.570 million 2017/18) for the Composite Programme.

The Housing commitment of £5.301 million is a result of ongoing investment in the new council house build programme for 1,000 houses.

The committed expenditure in the Composite Programme is a consequence of several significant capital investment projects namely the Skolieburn Bridge (£1.735 million), Bathgate Railway Bridge (£0.811 million), the refurbishment of various properties (£1.482 million) and roads infrastructure maintenance projects (£0.470 million).

15. FINANCIAL INSTRUMENTS

15.1 Types of Financial Instruments

The carrying amounts of financial assets and liabilities presented in the Balance Sheet relate to the following measurement categories.

	Non-Current				Current			
	Investments		Debtors		Investments		Debtors	
Financial Assets	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
Amortised Cost								
Investments	300	-	-	-	92,401	54,212	-	-
Debtors	-	-	-	-	-	-	13,242	17,254
Cash and Cash Equivalent	-	-	-	-	26,086	30,947	-	-
Assets Held at FVOCI								
Equity	253	270	-	-	-	-	-	-
Total Financial Assets	**553**	**270**	**-**	**-**	**118,487**	**85,159**	**13,242**	**17,254**
Non-Financial Assets	-	-	-	-	-	-	20,690	21,389
Total	**553**	**270**	**-**	**-**	**118,487**	**85,159**	**33,932**	**38,643**

	Non-Current				Current			
	Borrowing		Other Liabilities		Borrowing		Other Liabilities	
Financial Liabilities	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000
Amortised Cost								
Borrowing	(523,641)	(488,641)	-	-	(99,733)	(99,802)	-	-
Creditors	-	-	-	-	-	-	(9,426)	(8,044)
PFI and Financial Lease Liabilities	-	-	(85,984)	(60,630)	-	-	(3,342)	(2,552)
Total Financial Liabilities	**(523,641)**	**(488,641)**	**(85,984)**	**(60,630)**	**(99,733)**	**(99,802)**	**(12,768)**	**(10,596)**
Non-Financial Liabilities	-	-	-	-	-	-	-	-
Pensions Assets and Liabilities recognised in the Balance Sheet	-	-	(260,604)	(202,413)	-	-	-	-
Short-term Creditors	-	-	-	-	-	-	(59,953)	(52,631)
Total	**(523,641)**	**(488,641)**	**(346,588)**	**(263,043)**	**(99,733)**	**(99,802)**	**(72,721)**	**(63,227)**

Reclassification and re-measurement of financial assets at 1 April 2018

The effect of reclassification of financial assets following the adoption of IFRS 9 Financial Instruments by the Code of Practice on Local Authority Accounting has not resulted in any remeasurement to the carrying amounts of assets or liabilities.

The adoption of IFRS 9 Financial Instruments has had no impact on the general fund or financial instrument revaluation reserve.

The effect of the adoption of IFRS 9 has had no material impact on the measurement of impairment loss allowances and therefore no opening balances have been restated.

Investments in equity instruments designated at fair value through other comprehensive income

With the introduction of IFRS 9 the authority has designated the following equity at 31 March 2019 as fair value through other comprehensive income:-

	25,000 Nominal Shares @ £1 £'000	Fair Value £'000	Change in Fair Value during 2018/19 £'000	Dividends £'000
Lothian Buses	25	253	(17)	30

15.1 **Types of Financial Instruments (Continued)**

The council holds 25,000 ordinary shares in Lothian Buses, representing 0.4% of the company's capital. The core purpose of Lothian Buses Limited is to deliver a high quality, integrated and socially inclusive transport service with a long term vision to be an integral part of the future success of Edinburgh and the Lothians.

As the asset is not held for trading or income generation, but as a longer term policy initiative the equity has been designated as fair value through comprehensive income.

The shares in this company are not traded in an active market and therefore the fair value of £0.253 million has been based on valuation techniques that are not based on observable current market transactions or available market data. The valuation has been made based on the current calculated share price of £10.11 multiplied by the council's shareholding. The council has no current intention to dispose of the shareholding.

Items of income, expense, gains and losses

The gains and losses recognised in the Income and Expenditure Account in relation to financial instruments are made up as follows:-

	2018/19 Deficit on the Provision of Services £'000	2018/19 Other Comprehensive Income and Expenditure £'000	2017/18 Deficit on the Provision of Services £'000	2017/18 Other Comprehensive Income and Expenditure £'000
Gain / Loss on:				
Amortised Costs	-	-	-	-
Interest Expense				
Amortised Cost	-	24,734	-	24,940
PFI and finance lease liabilities	-	4,860	-	3,689
Total Interest Expense	**-**	**29,594**	**-**	**28,629**
Interest Income				
Amortised Cost	-	(1,613)	-	(1,578)
Total	**-**	**27,981**	**-**	**27,051**

15.2 **Fair Value of Assets and Liabilities carried at Amortised Cost**

Financial assets (represented by lending and receivables) and financial liabilities (represented by borrowings) are carried in the balance sheet at amortised cost.

Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instrument, using the following assumptions:

- Interest rates at 31 March 2019 for PWLB vary from 2.09% to 8.25% depending on the maturity profile of the loans and for other market loans (LOBO's) from 3.75% to 4.85% again based on the maturity profile of the loans.
- No early repayments or impairment are recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value.
- The fair value of trade and other receivables is assumed to be the invoiced or billed amount.

For both assets and liabilities the valuation basis adopted by Link Asset Services uses level 2 Inputs i.e. inputs other than quoted prices that are observable for the financial asset / liability. The accounting policy for the Fair Value Measurement is included in Statement 8 note 1 on page 39.

The fair values are calculated as follows:	31 March 2019		31 March 2018	
Financial Assets	**Carrying Amount £'000**	**Fair Value £'000**	**Carrying Amount £'000**	**Fair Value £'000**
Loans and receivables – Bonds The bond valuation is made by the prevailing benchmark rates	300	662	-	-
Loans and receivables - Cash The loans and receivables valuation is made by the prevailing benchmark rates	24,985	24,998	29,471	29,481
Loans and receivables - Fixed Term Deposits The fixed term deposit valuation is made by comparison of the fixed term investment with a comparable investment with the same / similar lender for the remaining period of the deposit	92,401	92,379	54,212	54,203
	117,686	**118,039**	**83,683**	**83,684**

15.2 **Fair Value of Assets and Liabilities carried at Amortised Cost (Continued)**

The fair value is more than the carrying amount because the council's lending figure includes a number of loans where the interest rate receivable is higher than the rates available for similar loans at the balance sheet date. The commitment to receive interest above current market rates increases the amount that the council would receive if it agreed to early repayment of the loans. The fair value amount also includes accrued interest receivable on the loans of £0.400 million.

	31 March 2019		31 March 2018	
Financial Liabilities	**Carrying Amount £'000**	**Fair Value £'000**	**Carrying Amount £'000**	**Fair Value £'000**
Financial liabilities - PWLB For loans from the PWLB, Link Asset Services have provided fair value estimates using both redemption and new borrowing (certainty rate) discount rates.	549,678	740,618	519,757	698,778
Financial liabilities - LOBO's and Temporary borrowing For non-PWLB loans Link Asset Services have provided fair value estimates using both PWLB redemption and new market loan discount rates.	73,696	107,483	68,686	100,839
	623,374	**848,101**	**588,443**	**799,617**

The fair value is more than the carrying amount because the council's borrowing figure includes a number of loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. The commitment to pay interest above current market rates increases the amount that the council would have to pay if the lender requested or agreed to early repayment of the loans.

15.3 **Nature and Extent of Risks arising from Financial Instruments**

The council's activities expose it to a variety of financial risks:-

- **Credit risk** - the possibility that other parties might fail to pay amounts due to the council.
- **Liquidity risk** - the possibility that the council might not have funds available to meet its commitments to make payments.
- **Re-financing risk** - the possibility that the council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- **Market risk** - the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock market movements.

The council's management of treasury risks actively works to minimise its 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 written 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.

This risk is minimised through the Treasury Management Plan which required that deposits are only placed with a limited number of high quality UK banks and building societies whose credit rating is independently assessed as sufficiently secure by the council's treasury adviser and to restrict lending to a prudent maximum amount of each institution.

The credit ratings of investments as at 31 March 2019 are:-

Investments	**Credit Risk**	**Investment Value at 31 March 2019 £'000**	**%**
Money Market Funds	AAA	24,985	21
Local Authorities, Public Bodies and Debt Management Office	AA	10,000	9
West Calder High School DBFM	AA	300	-
Bank of Scotland Plc – Main Banking Provider	A+	55,000	47
Standard Chartered Bank	A	5,000	4
Santander UK Plc	A	7,000	6
Goldman Sachs International Bank	A	5,000	4
National Westminster Bank Plc	A-	10,000	9
Total		**117,285**	**100**

15.3 **Nature and Extent of Risks arising from Financial Instruments (Continued)**

The Treasury Management Plan, which is set annually and is monitored throughout the year, sets out the limits on both duration and maximum levels of deposits. These counterparties are chosen using credit rating data supplied by the council's treasury advisers. This is based on data from the three main credit rating agencies, overlaid by:-

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap spreads (i.e. insurance policies) to give early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

The council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally; as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of is irrecoverability applies to all of the council's deposits, but there was no evidence at 31 March 2019 that this was likely.

The Treasury Management Plan for 2018/19 was approved by Council on 13 February 2018 and is available on the council's website https://coins.westlothian.gov.uk/coins/viewSelectedDocument.asp?c=e%97%9Dg%8Fo%80%8F.

Amounts Arising from Expected Credit Losses
Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances (including balances outstanding at the date of derecognition of an asset) are debited / credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. During 2018/19 the credit losses recognised related only to receivables (debtors) and was based on a lifetime basis.

	Amount at 31 March 2019 £'000	**Historical experience of non-payment adjusted for market conditions at 31 March 2019 %**	**Estimated maximum exposure to default and uncollectability £'000**
Deposits with banks and building societies	117,686	0%	-
Customers (other income)	39,143	2.25%	881

The council does not generally allow credit for customers, however, £33.527 million of the £39.143 million balance is past its due date for payment. The past due amount can be analysed by age as follows:

	Debtors - Local Taxation £'000	**Other Debtors £'000**	**Total £'000**
Less than three months	1,059	2,672	3,731
Three to six months	-	1,289	1,289
Six months to one year	4,237	865	5,102
More than one year	22,438	967	23,405
	27,734	**5,793**	**33,527**

The council has provided £21.834 million against possible bad debts at 31 March 2019 (£21.225 million at 31 March 2018).

Liquidity Risk
The council's main source of borrowing is the Treasury's Public Works Loan Board. 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 possible uncertainty over interest rates. The council's policy is to ensure that not more than 15% of loans are due to mature within any financial year through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments. LOBO Loans are classified as maturing at the date of the next rate review but are unlikely to be repaid at that point.

The maturity analysis of financial liabilities, including LOBO Loans, is as follows:

	31 March 2019 £'000	**31 March 2018 £'000**
Less than one year	99,733	99,802
Between one and two years	10,000	20,000
Between two and five years	10,000	20,000
Between six and ten years	23,373	13,374
More than ten years	480,268	435,267
	623,374	**588,443**

15.3 **Nature and Extent of Risks arising from Financial Instruments (Continued)**

Refinancing and Maturity Risk

The council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameter used to address this risk.

The council approved treasury and investment strategies address the main risks and the treasury team address the operational risks within the approved parameters. This includes:-

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the council's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs

The council policy is to ensure that no more than 15% of loans are due to mature within any financial year, through a combination of prudent planning of new loans taken out and, where it is economic to do so, making early repayments. LOBO Loans are classified as maturing at the date of the next review but are unlikely to be repaid at that point.

Market risk

Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested. For example, a rise in interest rates would mean an increase in the interest charged on borrowing at variable rates. An increase in interest rates would also mean an increase in the income received on lending at variable rates.

Changes in market rates also affect the notional "fair value" of lending and borrowing. For example, a rise in interest rates would reduce the fair value of both lending and borrowing at fixed rates. Changes in the fair value of lending and borrowing do not impact upon the taxpayer and are confined to prescribed presentational aspects in the Accounts.

The council has a variety of strategies for managing the uncertainty of future interest rates and the financial impact on the council.

- It is the policy of the council to ensure its variable rate borrowing is limited to a maximum of 35% of total borrowing. At 31 March 2019 the council had no debt subject to variable rates.
- During periods of falling rates and where it is economically advantageous to do so, the council will consider the repayment and restructuring of fixed interest rate debt.

The council takes daily advice from its specialist treasury adviser and actively monitors changes in interest rates to inform decisions on the lending of surplus funds, new borrowings and restructuring of existing borrowings.

To illustrate the impact of changes in interest rates upon the council, the following table shows the financial effect if rates had been 1% higher for the financial year 2018/19, with all other variables held constant.

Impact on tax-payer and rent-payers	**£'000**
Increase in interest payable on variable rate borrowings	-
Increase in interest receivable on variable rate lending	(1,386)
Net effect on Income and Expenditure Account	**(1,386)**
Housing Revenue Account's Share	**(495)**

Price Risk
The council has 25,000 ordinary shares in Lothian Buses Limited (formerly Lothian Buses Plc). While the value of the shares held is not significant, there remains a risk arising from the movement in the price of the shares.

Foreign Exchange Risk
The council does not lend or borrow in foreign currencies and has no exposure to gains or losses arising from movements in exchange rates.

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 8

16. SHORT TERM DEBTORS

	2018/19		2017/18	
	£'000	£'000	£'000	£'000
Central Government Bodies		10,136		10,484
Other Local Authorities		1,134		1,465
NHS Bodies		1,100		2,704
Public Corporations and Trading Funds		1,376		1,239
Other Entities and Individuals				
• Council Tax Debtors	26,675		27,004	
• Provision for Council Tax Debtors	(18,911)		(18,917)	
• Trade Debtors	6,154		7,900	
• Provision for Trade Debtors	(2,923)		(2,308)	
• Other Entities and Individuals	9,191		9,072	
		20,186		22,751
		33,932		**38,643**

Analysed as follows:-	**2018/19 £'000**	**2017/18 £'000**
Trade Receivables	9,231	12,055
Prepayments	4,011	5,199
Other Receivables	11,867	10,944
	25,109	**28,198**
Debtors for Local Taxation	8,823	10,445
	33,932	**38,643**

17. SHORT TERM CREDITORS

	2018/19 £'000	**2017/18 £'000**
Central Government Bodies	13,742	10,418
Other Local Authorities	3,756	2,973
NHS Bodies	485	321
Public Corporations and Trading Funds	442	535
Other Entities and Individuals	54,296	48,980
	72,721	**63,227**

Analysed as follows:-	**2018/19 £'000**	**2017/18 £'000**
Trade Payables	12,768	10,596
Other Payables	59,953	52,631
	72,721	**63,227**

18. PROVISIONS

	Balance at 31 March 2018 £'000	**Provision in Year £'000**	**Payments in year £'000**	**Balance at 31 March 2019 £'000**
Equal pay settlements	**1,212**	**-**	259	**953**

The value of the total liability, for the settlement of claims for back pay arising from equal pay claims, was originally estimated at £1.8 million based on the number of claims received and an average settlement amount.

As at 31 March 2019, the council has a provision which is unutilised of £0.953 million. As the council's equal pay claims are largely settled, the remaining provision is considered sufficient to meet the requirements of any final claims, with the remaining balance to be reallocated by the council.

19. LONG TERM CREDITORS

	Sum Outstanding 2018/19 £'000	**Sum Outstanding 2017/18 £'000**
Finance Leases - outstanding principal	60	170
Open Space Agreements	247	260
Economic Development Business Gateway	169	89
	476	**519**

OTHER LONG TERM LIABILITIES

PPP1 Schools	10,869	11,788
PPP3 Schools	47,234	48,842
DBFM School	27,881	-
	85,984	**60,630**

20. PENSION SCHEMES

20.1 **Pension Schemes**

As part of the terms and conditions of employment of its officers, the council makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make payments and to disclose them at the time that employees earn their future entitlement.
As explained in Statement 8 note 1 of the Accounting Policies the council participates in two post-employment schemes:

- **Local Government Pension Scheme**
  The Local Government Pension Scheme (Lothian Pension Fund) is administered by City of Edinburgh council in accordance with the Local Government Pension Scheme (Scotland) Regulations 2008. This is a funded defined benefit final salary scheme, meaning that the council and employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets.

- **Teachers' Pension Scheme**
  The Teachers' Pension Scheme is administered by the Scottish Public Pensions Agency, an Executive Agency of the Scottish Government. It provides teachers with defined benefits upon their retirement, and the council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries. However, as the Scheme is not able to identify each council's share of the underlying liabilities with sufficient reliability for accounting purposes, the pension costs are accounted for as if it were a defined contribution scheme.

The principal risks to the authority of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme, changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to an extent by the statutory requirement to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

Discretionary post-retirement benefits on early retirement are an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

In 2018/19 the council paid an employer's contribution of £12.763 million (2017/18 £12.702 million) at the prescribed rate 17.2% (2017/18 17.2%) of pensionable pay to the Scottish Government in respect of teachers' pension costs. An actuarial valuation was carried out at 31 March 2005. In addition, the council is responsible for all pension payments relating to added years together with related increases. In 2018/19 (2017/18) these amounted to £0.399 million (£0.412 million) representing 0.34% (0.36%) of pensionable pay.

The council recognises the cost of retirement benefits in the reported cost of service when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against council tax is based on the cash payable in the year, so the real cost of post-employment benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

Guaranteed Minimum Pension (GMP)

GMP was accrued by members of the Local Government Pension Scheme (LGPS) between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number or reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the Second State Pension. The introduction of the new Single State Pension in April 2016 disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men and women's benefits.

As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes (including the LGPS) and hence scheme employers.

The fund's actuary has carried out calculations in order to estimate the impact that the GMP indexation changes will have on the liabilities of West Lothian Council for financial reporting purposes. The estimate assumes that the permanent solution eventually agreed will be equivalent in cost to extending the interim solution to all members reaching state pension age from 6 April 2016 onwards. This increased liability has been reflected in the annual accounts as a past service cost.

These numbers are approximate estimates based on employer data as at 31 March 2017 and will be revised at the upcoming valuation.

McCloud Judgement

When the LGPS benefit structure was reformed in 2015, transitional protections were applied to certain older members close to normal retirement age. Following legal proceedings argued in the McCloud and Sargeant cases, the Court of Appeal found that the transitional provisions introduced in the judges and firefighters' pension schemes in 2015 gave rise to unlawful age discrimination. The UK Government requested leave to appeal this finding but this was refused by the Supreme Court on 27 June 2019. The UK Government has formally accepted the Court's decision and, recognising the implications for all public sector pension schemes, is engaging with relevant representatives to agree how the discrimination will be remedied.

The Government Actuary's Department (GAD) has estimated that the impact of the McCloud/Sargeant rulings for the LGPS as a whole could be to increase active member liabilities by 3.2%, based on a given set of actuarial assumptions. The council's own actuary has adjusted GAD's estimate to better reflect the council's local assumptions, particularly withdrawal rates and salary increases. The council's approach has therefore been to include an estimated cost of the impact of the McCloud judgement in 2018/19 financial statements. This impact has been recognised as a past service cost for 2018/19 of £15.5 million. These numbers are high level estimates based on a combination of Scheme and Fund level calculations and therefore depend on various key assumptions which may or not be borne out in practice. Further uncertainties affecting the final cost relate to the number of members who will ultimately be affected and the precise way in which they will be compensated.

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 8

20.2 **Transactions Relating to Post-Employment Benefits**

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement:

	2018/19		2017/18	
Comprehensive Income and Expenditure Statement	**£'000**	**£'000**	**£'000**	**£'000**
Cost of Services				
Current Service cost	45,755		41,173	
Past Service Costs	19,103		140	
Effect of Settlements	-	**64,858**	(339)	**40,974**
Financing and Investment Income and Expenditure				
Net Interest Expense		**5,943**		**7,751**
		70,801		**48,725**
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense	(65,074)		14,593	
Actuarial (gains) and losses arising on changes in demographic assumptions	-		9	
Actuarial (gains) and losses arising on changes in financial assumptions	99,419		(37,610)	
Other experience	58	**34,403**	(88,930)	**(111,938)**
Total Post-employment Benefits Charged to Comprehensive Income and Expenditure Statement		**105,204**		**(63,213)**

	2018/19		2017/18	
Movement in Reserves Statement	**£'000**	**£'000**	**£'000**	**£'000**
Reversal of net charges made to the surplus on the provision of services for post-employment benefits in accordance with Code		**(77,263)**		**87,877**
Actual Amount charged against the General Fund Balance of pensions in the year				
Employer's contributions payable to the scheme	(25,984)		(22,667)	
Contributions in respect of unfunded benefits	(1,957)		(1,997)	
		(27,941)		**(24,664)**

The amount charged to taxation for the Lothian Pension Fund Scheme in 2018/19 (2017/18) was £26.440 million (£24.338 million).

20.3 **Pension Assets and Liabilities Recognised in the Balance Sheet**

The amount included in the Balance Sheet arising from the council's obligation in respect of Lothian Pension Fund is as follows:-	**31 March 2019 £'000**	**31 March 2018 £'000**
Fair Value of Assets	1,056,541	958,412
Present Value of Funded Liabilities	(1,305,729)	(1,129,673)
Share of net liabilities	(249,188)	(171,261)
Present value of unfunded liabilities	(30,488)	(31,152)
Net pension liabilities arising from defined benefit obligation	**(279,676)**	**(202,413)**

20.4 **Reconciliation of the Movements in the Fair Value of Lothian Pension Fund Assets**	**31 March 2019 £'000**	**31 March 2018 £'000**
Opening fair value of assets at 1 April	958,412	950,082
Interest income on plan assets	25,954	24,602
Remeasurement gain / (loss) - Return on plan assets (excluding the amount included in the net interest expense	65,074	(14,593)
Employer's contributions payable to the scheme	25,984	22,667
Contributions by scheme participants	7,088	6,774
Benefits paid	(25,971)	(26,397)
Effect of settlements	-	(4,723)
Closing fair value of assets at 31 March	**1,056,541**	**958,412**

20.5 **Reconciliation of the Present Value of Lothian Pension Fund Liabilities**	**31 March 2019 £'000**	**31 March 2018 £'000**
Opening Balance at 1 April	(1,160,825)	(1,240,372)
Current Service costs	(45,755)	(41,173)
Interest cost	(31,897)	(32,353)
Contributions by scheme participants	(7,088)	(6,774)
Remeasurement gain / (loss):		
- Actuarial (gains) and losses arising on changes in demographic assumptions	-	(9)
- Actuarial (gains) and losses arising on changes in financial assumptions	(99,419)	37,610
- Other experience	(58)	88,930
Past service costs	(19,103)	(140)
Benefits paid	25,971	26,397
Unfunded benefits paid	1,957	1,997
Effect of settlements	-	5,062
Closing balance of liabilities at 31 March	**(1,336,217)**	**(1,160,825)**

20.6 **Lothian Pension Fund Assets by Category**
The asset values below are at bid value as required by IAS 19

	2018/19		2017/18	
	£'000	%	£'000	%
Equity Securities:				
*Consumer	118,177	11%	131,316	14%
*Manufacturing	98,667	9%	142,686	15%
*Energy and Utilities	76,561	7%	59,956	6%
*Financial Institutions	87,491	8%	85,146	9%
*Health and Care	59,208	6%	46,987	5%
*Information Technology	36,009	3%	58,430	6%
*Other	131,970	13%	60,144	6%
Private Equity:				
*All	498	-	3,054	-
All	10,635	1%	14,444	2%
Investment funds and unit trusts:				
*Equities	-	-	9,212	1%
Equities	10,615	1%	-	-
*Commodities	-	-	-	-
Commodities	-	-	-	-
*Infrastructure	16,067	2%	-	-
Infrastructure	113,138	11%	113,587	12%
*Other	1,676	-	-	-
Other	-	-	2,189	-
Equity	**760,712**	**72%**	**727,151**	**76%**
Debt Securities:				
*Corporate Bonds A (investment grade)	-	-	-	-
Corporate Bonds (non-investment grade)	-	-	18,674	2%
*UK Government	116,039	11%	92,916	10%
*Other	-	-	-	-
Investment funds and unit trusts:				
Bonds	32,101	3%	-	-
*Bonds	-	-	-	-
Derivatives:				
Inflation	-	-	-	-
Interest rate	-	-	-	-
*Foreign exchange	-	-	441	-
*Other	261	-	-	-
Bonds	**148,401**	**14%**	**112,031**	**12%**
Real Estate:				
UK Property	68,024	6%	61,600	6%
Overseas Property	-	-	1,002	-
Property	**68,024**	**6%**	**62,602**	**6%**
Cash and cash equivalents				
*All	79,404	8%	56,628	6%
Cash and cash equivalents	**79,404**	**8%**	**56,628**	**6%**
	1,056,541	**100%**	**958,412**	**100%**

Assets marked with an asterisk (*) have quoted prices in active markets and equate to £822.028 million (2017/18 £746.916 million) with prices not quoted in active markets totalling £234.513 million (2017/18 £211.496 million).

20.7 **Basis for Estimating Assets and Liabilities**
Liabilities are valued on an actuarial basis using the projected unit credit method which assesses the future liabilities of the fund discounted to their present value. The valuations are based on a valuation as of 31 March 2017 and updated for the following periods by Hymans Robertson, the independent actuaries to the Lothian Pension Fund. The significant assumptions used in the calculations for both the Lothian Pension Fund and discretionary payments are:

Mortality Assumptions
Life expectancy is based on the Fund's Vita Curves analysis (improvements in line with the CMI2016 model), with an allowance for smoothing of recent mortality experience and a long term rate of 1.25%, used in the formal funding valuation as at 31 March 2017. Based on these assumptions, the average future life expectancies at age 65 are summarised on page 65.

Investment Returns
The return on the Fund in market value terms for the period to 31 March 2019 is estimated based on actual employer returns as reported in HEAT and index returns where necessary index returns, where used, are based on employer asset holdings. Details are given below:

Actual Returns from 1 April 2018 to 31 March 2019 **9.5%**

20.7 **Basis for Estimating Assets and Liabilities (Continued)**

		2018/19 Years	2017/18 Years
Current Pensioners	- Males	21.7	21.7
	- Females	24.3	24.3
Future Pensioners	- Males	24.7	24.7
	- Females	27.5	27.5

Financial Assumptions	2018/19 %	2017/18 %
Rate of inflation	2.5%	2.4%
Rate of increase in salaries	4.2%	4.1%
Increase in Pensions	2.5%	2.4%
Rate for discounting scheme liabilities	2.4%	2.7%

20.8 **Sensitivity Analysis**

Accounting guidance requires disclosure of the sensitivity of the results to the methods and assumptions used. The approach taken in preparing the sensitivity analysis shown is consistent with that adopted in the previous year.

	Approximate % Increase to Employer Obligation	Approximate Monetary Amount £'000
0.5% decrease in Real Discount Rate	10%	139,956
0.5% increase in the Salary Increase Rate	2%	27,512
0.5% increase in the Pension Increase Rate	8%	109,176

For sensitivity purposes, we estimate that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3 – 5%. In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominately apply at younger or older ages).

20.9 **Projected Pension Cost for period to 31 March 2020**

The deficit has increased mainly as a result of corporate bond yields being lower than 31 March 2018, therefore increasing the value placed on obligations. The effect of this has been partially offset by investment returns being greater than 31 March 2018 discount rate.

The figures presented in the actuary's valuation are prepared only for the purposes of IAS 19 and have no validity in other circumstances. In particular, they are not relevant for calculations undertaken for funding purposes and have no impact on the employer's pension contribution rate.

The net pensions liability does not impact on the council's usable reserves but the requirement to recognise the net pensions liability in the balance sheet has decreased the reported net worth of the council by 27% (18% 2017/18).

The following table sets out the projected amount to be charged to operating profit for the year to 31 March 2020, based on assumptions as at 31 March 2019:-

	31 March 2020			
	Assets £'000	Obligations £'000	Net £'000	% of pay
Current service cost	-	(51,214)	(51,214)	(43.8%)
Past service cost including curtailments	-	-	-	-
Effect of settlements	-	-	-	-
Total Service Cost	**-**	**(51,214)**	**(51,214)**	**(43.8%)**
Interest income on plan assets	25,420	-	25,420	21.8%
Interest cost on defined benefit obligation	-	(32,422)	(32,422)	(27.7%)
Total Net Interest Cost	**25,420**	**(32,422)**	**(7,002)**	**(5.9%)**
Total included in Profit or Loss	**25,420**	**(83,636)**	**(58,216)**	**(49.7%)**

The estimated Employer's contributions for the year to 31 March 2020 will be approximately £24.941 million.

20.10 **Impact on Council's Cash Flow**

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The Fund has agreed a strategy with the schemes' actuary to achieve a funding level of 100% over the long term. Funding Levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2020.

The estimated Employer's contributions for the year to 31 March 2020 will be approximately £24.941 million. Employer contributions have been set at 21.0% for 2019/20 (20.5% 2018/19).

21. USABLE RESERVES

Movements in the council's usable reserves are detailed in the Movement in Reserves Statement and Notes 12 and 13.

21.1 **Revenue Statutory Funds**	2018/19 £'000	2017/18 £'000
Insurance Fund		
Balance at 1 April	10,125	11,835
Appropriation	266	(1,710)
Balance at 31 March	**10,391**	**10,125**

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 8

21.2 **Capital Fund**	**2018/19 £'000**	**2017/18 £'000**
Balance at 1 April	58,963	65,527
Transfer (to) / from Capital Adjustment Account	(2,013)	(9,339)
Appropriation	4,763	2,775
Balance at 31 March	**61,713**	**58,963**

22. UNUSABLE RESERVES	**2018/19 £'000**	**2017/18 £'000**
Revaluation Reserve	530,442	549,079
Available for Sale Financial Instruments Reserve	-	245
Financial Instruments Revaluation Reserve	228	-
Capital Adjustment Account	438,096	501,535
Financial Instruments Adjustment Account	(8,403)	(8,830)
Pensions Reserve	(279,676)	(202,413)
Employee Statutory Adjustment Account	(10,230)	(6,372)
Total Unusable Reserves	**670,457**	**833,244**

22.1 **Revaluation Reserve**	**2018/19 £'000**	**2017/18 £'000**
Balance at 1 April	549,079	579,486
Unrealised gains / (losses) on revaluation of fixed assets	32,059	18,077
Less: Depreciation on revaluations	(50,696)	(48,484)
Balance at 31 March	**530,442**	**549,079**

The Revaluation Reserve represents the store of gains on revaluation of fixed assets not yet realised through sales, and 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. The revaluations are depreciated over the life of the revalued assets with the corresponding credit charged to the Capital Adjustment Account.

22.2 **Financial Instruments Revaluation Reserve**	**2018/19 £'000**	**2017/18 £'000**
Balance at 1 April	-	-
Transfer from available for Sale Financial Instruments Revaluation Reserve	245	-
Revaluation of long-term Investments at fair value	(17)	-
Balance at 31 March	**228**	**-**

22.3 **Available-for-Sale Financial Instruments Reserve**	**2018/19 £'000**	**2017/18 £'000**
Balance at 1 April	245	252
Revaluation of long term investments at fair value	-	(7)
Transfer to Financial Instruments Revaluation Reserve	(245)	-
Balance at 31 March	**-**	**245**

22.4 **Capital Adjustment Account**	**2018/19 £'000**	**2017/18 £'000**
Balance at 1 April	501,535	533,501
Depreciation and impairment	(170,780)	(146,326)
Government grants written off	25,863	28,799
Loans fund principal repayments	17,290	15,457
Capital financed from current revenue (General Fund)	1,594	1,731
Capital financed from current revenue (HRA)	7,633	8,123
Gain/ (Loss) on disposal of non-current assets	2,252	2,427
Revaluation Reserve - Depreciation on revaluations	50,696	48,484
Transfer of Capital Receipts to Capital Fund	2,013	9,339
Balance at 31 March	**438,096**	**501,535**

The balances on the former Fixed Asset Restatement Account and Capital Financing Account at 31 March 2007 have been transferred into the Capital Adjustment Account. Revaluation gains up to 1 April 2007 have been accumulated in the Capital Adjustment Account. This account accumulates (on the debit side) the write-down of the historical cost of fixed assets as they are consumed by depreciation and impairment. It accumulates (on the credit side) the resources that have been set aside to finance capital expenditure.

NOTES TO THE ANNUAL ACCOUNTS — STATEMENT 8

22.5 **Financial Instruments Adjustment Account**	**2018/19 £'000**	**2017/18 £'000**
Balance at 1 April	(8,830)	(9,260)
Appropriations (to) from Movements on Reserve Statement	427	430
Balance at 31 March	**(8,403)**	**(8,830)**

The Financial Instruments Adjustment Account is an accounting reserve arising from the re-measurement of financial instruments. It is a balancing account to allow for differences in statutory requirements and proper accounting practices for the council's lending and borrowing. The balance at 31 March 2018 represents:

	2018/19 £'000	**2017/18 £'000**
Deferred Premiums less Discounts from Debt Rescheduling	(5,883)	(6,276)
Market LOBO loans restated - balance sheet value	(63,100)	(63,134)
- Deduct: actual loans outstanding	60,580	60,580
	(8,403)	**(8,830)**

22.6 **Pension Fund Reserve**

The pension reserve mirrors the net pensions liability detailed in note 20.3. The movements in the year are summarised as follows:	**2018/19 £'000**	**2017/18 £'000**
Balance at 1 April	(202,413)	(290,290)
Net surplus for year	(42,860)	(24,061)
Actuarial Gains (Losses) in Pension Plan	(34,403)	111,938
Balance at 31 March	**(279,676)**	**(202,413)**

22.7 **Employee Statutory Adjustment Account**	**2018/19 £'000**		**2017/18 £'000**
Balance at 1 April		(6,372)	(10,002)
Annual leave and maternity accrual - previous year	6,372		10,002
Annual leave and maternity leave accrual - current year	(10,230)		(6,372)
Statutory adjustment for the year		(3,858)	3,630
Balance at 31 March		**(10,230)**	**(6,372)**

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave and maternity leave carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or (from) the Account.

23. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2018/19 £'000	**2017/18 £'000**
The following amounts are included in the net cash flows from Operating Activities:-		
Interest paid	24,098	24,343
Interest element of finance lease rental payments including PPP contracts	4,860	3,689
Interest received	(846)	(1,384)
The deficit on the provision of services has been adjusted for the following non-cash movements:-		
Depreciation	125,870	119,957
Impairment and downward revaluations	44,910	26,369
Amortisation	(34)	(36)
Increase/(decrease) in creditors	15,941	463
(Increase)/decrease in debtors	4,930	(2,710)
(Increase)/decrease in Short Term Intangible Assets	178	(47)
(Increase)/decrease in inventories	(460)	92
Movement in pension liability	42,860	24,061
Gain on disposal of non-current assets	(2,252)	(2,427)
Other non-cash items	67	(513)
	232,010	**165,209**

NOTES TO THE ANNUAL ACCOUNTS STATEMENT 8

24. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2018/19 £'000	2017/18 £'000
Purchase of property, plant and equipment	(98,765)	(97,891)
Other payments for investing activities	-	-
Proceeds from the sale of property, plant and equipment	2,849	5,577
Net (increase) decrease in short term investments	(38,301)	71,000
Net cash flows from Investing Activities	**(134,217)**	**(21,314)**

25. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2018/19 £'000	2017/18 £'000
Cash receipts of short and long term borrowing	65,000	15,000
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PPP contracts	26,034	(2,499)
Repayments of short and long term borrowing	(30,035)	(30,452)
Net cash flows from Financing Activities	**60,999**	**(17,951)**

26. CASH FLOW STATEMENT - CASH AND CASH EQUIVALENTS

	2018/19 £'000	2017/18 £'000
Cash held by officers	139	136
Bank current accounts	962	1,340
Short term deposits	24,985	29,471
Total Cash and Cash Equivalents	**26,086**	**30,947**

27. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

	1 April 2017 £'000	Financing Cash Flows £'000	Non-Cash Changes £'000	31 March 2018 £'000
Long term borrowing	503,641	(15,000)	-	488,641
Short term borrowings	100,290	(452)	(36)	99,802
Finance Lease Liabilities	387	(107)	-	280
On balance sheet PFI liabilities	65,464	(2,392)	-	63,072
Total liabilities from financing activities	**669,782**	**(17,951)**	**(36)**	**651,795**

	1 April 2018 £'000	Financing Cash Flows £'000	Non-Cash Changes £'000	31 March 2019 £'000
Long term borrowing	488,641	35,000	-	523,641
Short term borrowings	99,802	(35)	(34)	99,733
Finance Lease Liabilities	280	(110)	-	170
On balance sheet PFI liabilities	63,072	26,144	-	89,216
Total liabilities from financing activities	**651,795**	**60,999**	**(34)**	**712,760**

28. CONTINGENT LIABILITIES

Municipal Mutual – Scheme of Arrangement

The Municipal Mutual Scheme of Arrangement was triggered in November 2012. The scheme administrator announced that the initial levy rate was 15% of claims paid since 1993. The council has paid a total of £0.198 million in respect of West Lothian District Council and Livingston Development Corporation liability and £0.035 million in respect of the council's share of Lothian Regional Council liability. The council recognises that further levies will be imposed and therefore acknowledges a potential future liability.

Abuse Claims

The council recognises the potential for compensation claims deriving from the Scottish Government's Limitation (Childhood Abuse) (Scotland) Bill which will remove the three-year time limit on claims of child abuse. Some claims may be more historic and relate to before the reorganisation to West Lothian Council in 1996. At this stage, no claims have been brought that have progressed to a stage where a possible payment can be reliably estimated and accounted for in the financial statements. The council will consider the funding of future claims according to the nature and materiality of claims as they are brought in future years.

Holiday Pay Liability

Since 2014, there have been a number of Employment Tribunal Cases heard which have been decided in favour of claimants with regard to the calculation of holiday pay and, in particular, which components of pay should be considered for the purposes of determining normal remuneration.

On 31 July 2017, the Employment Appeals Tribunal handed down a judgement that non-contractual payments should be included in pay for holiday leave where these payments are sufficiently regular or recurring to be justified as normal pay.

Following approval by the Council Executive on 19 September 2017, the council commenced the payment of the COSLA recommended rate of 8.3% with effect from 1 October 2017 on non-contractual additional payments to ensure holiday pay is reflective of normal remuneration.

The council has received a number of claims for backdated holiday pay which are currently sisted by the Employment Tribunal. At a meeting of Council Executive on 26 June 2018 a decision was taken to enter into discussions with the relevant trade unions regarding settlement of these cases. These discussions are currently in progress.

29. TRADING OPERATIONS

The Local Government in Scotland Act 2003 repealed the requirement to have separate DSO/DLO trading accounts and introduced a specific performance requirement for each significant trading operation to breakeven over a three year rolling basis.

Economic Development Properties have been identified as a significant trading operation. The Service involves the maintenance and letting of industrial units, office accommodation and shops. The portfolio contains around 500 individual rental units and the policy objective is to ensure an adequate supply of property to meet the requirements of business needs in West Lothian. Summarised details of the account are as follows:-

	2018/19 £'000	2017/18 £'000
Turnover	4,564	4,581
Expenditure	3,800	5,216
Surplus (Deficit) for year	**764**	**(635)**
Budget Surplus (Deficit) for year	**887**	**(641)**

Included in turnover is internal income of £0.242 million (£0.275 million 2017/18).

The requirement to charge notional interest was removed in the 2006 SORP. However, for the purposes of assessing whether the trading operation has met the statutory requirement to breakeven over a three year rolling period, interest still requires to be included in expenditure for this assessment. A share of General Fund loan interest has been made based on the net book value of Economic Development Properties fixed assets to the total net book value of General Fund fixed assets. The results are summarised as follows:-

	Surplus / (Deficit) £'000	Loan Interest £'000	Net Surplus / (Deficit) £'000
2016/17	485	531	(46)
2017/18	(635)	481	(1,116)
2018/19	764	420	344
	614	**1,432**	**(818)**

In the three years to 31 March 2019 the trading account sustained a statutory aggregate loss of £0.818 million, therefore not achieving the statutory financial requirement to breakeven over the three year period. This was as a result of charges for impairment of £0.644 million in 2016/17, £2.185 million in 2017/18 and £0.588 million in 2018/19 on assets from the Economic Development Property Portfolio. The financial position excluding the impairment charges of £3.417 million would have resulted in the following surplus.

	2018/19 £'000	2017/18 £'000	2016/17 £'000
Turnover	4,564	4,581	4,819
Expenditure	3,212	3,031	3,690
Surplus for year	**1,352**	**1,550**	**1,129**
Budget Surplus for year	**1,475**	**1,544**	**1,041**

	Surplus £'000	Loan Interest £'000	Net Surplus £'000
2016/17	1,129	531	598
2017/18	1,550	481	1,069
2018/19	1,352	420	932
	4,031	**1,432**	**2,599**

Excluding impairment charges incurred during the period 2016/17 to 2018/19, in the three years to 31 March 2019 the trading account would have made a statutory aggregate surplus of £2.599 million, therefore meeting the statutory financial requirement to breakeven over the three year period.

30. AGENCY SERVICES

Expenditure	2018/19 £'000	2017/18 £'000
Local Bus Services Cross boundary bus services where other local authorities contract for the services and charge West Lothian for shared cross boundary agreements.	80	76
Residential Schools and other Social Work payments Costs incurred in relation to residential care for children under the age of 18 who are deemed to be a significant risk to themselves or others in the community. Secure care is provided by third sector organisations. Secure care provides intensive support and safe boundaries whilst providing care, including health and education.	115	187
Special School Placements Costs incurred in respect of West Lothian children who are in receipt of supported education services provided by other local authorities outwith the West Lothian Area.	98	158
Other Provision of other services – Speech Therapy, Additional Needs Support, New business Start-up support, Children's Panel etc.	1,024	1,055
Non Domestic Rates The council provides a collection service for Scottish Government in relation to Non-Domestic Rates. The difference between funding received and costs incurred is fully funded by Scottish Government and is included as a debtor in the council's Balance Sheet.	85,800	83,232
Total Expenditure	**87,117**	**84,708**

Income		
Scottish Water Collection Services The Council has an agreement with Scottish Water whereby it collects water and waste charges in conjunction with collection of council tax for a collection fee.	553	553
Social Work Services Income in respect of delivery of support for people with alcohol and drug problems. This is delivered through West Lothian Council's Social Work Addictions Team and funded by National Health Service under our Alcohol and Drug Partnership contracts.	1,567	1,346
Local Bus Services Cross boundary bus services where West Lothian contract for the services and recharge other local authorities for shared cross boundary agreements.	199	192
Special School Placements Recovery of the cost of provision of supported education provided to Other Local Authority children living outwith the West Lothian boundary but receiving educational services in West Lothian.	403	417
Other Recovery of the cost of the Housing Needs Officer at Addiewell Prison and recovery of the cost of provision of payroll, Human Resources, IT and Telephony Services to the Improvement Service and West Lothian College.	241	155
Non Domestic Rates The council provides a collection service for Scottish Government in relation to Non-Domestic Rates. The difference between funding received and costs incurred is fully funded by Scottish Government and is included as a debtor in the council's Balance Sheet.	84,118	83,011
Total Income	**87,081**	**85,674**

31. EXTERNAL AUDIT COSTS

The Accounts Commission for Scotland has appointed Ernst & Young LLP as the council's External Auditor for the financial years 2016/17 to 2020/21.

The council has incurred the following costs in relation to the audit of the Annual Accounts, certification of grant claims and statutory inspections services provided by the Authority's external auditors:-

	2018/19 £'000	2017/18 £'000
Fees payable to Audit Scotland in respect of external audit services undertaken in accordance with the Code of Audit Practice.	320	315
Audit fee in respect of s106 Trust Funds	4	4
	324	**319**

32. POST REPORTING PERIOD EVENTS

The Head of Finance and Property Services, Donald Forrest CPFA, being the officer responsible for the council's financial affairs, authorised the issue of the unaudited annual accounts on 24 June 2019 and the audited annual accounts on 24 September 2019. Events after the balance sheet date have been considered up to 24 September 2019

33. GRANT INCOME

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2018/19.

	2018/19 £'000	2017/18 £'000
Credited to Taxation and Non-Specific Grant Income		
Capital Grants and Contributions		
- General Capital Grant	18,394	16,724
- Other Scottish Government Grant	4,271	8,165
- Developers Contributions	2,083	2,210
- Other Capital Contributions	1,115	1,700
Total Capital Grants and Contributions	**25,863**	**28,799**
Revenue Support Grant	228,874	213,469
Distribution from Non-Domestic Rate Pool	79,333	90,056
Total Grants credited to Taxation and Non-Specific Grant Income	**334,070**	**332,324**
Credited to Services		
Housing Benefits Grant	49,486	52,239
Administration of Benefits Grant	667	725
DWP Discretionary Housing Payment	547	462
Integration Joint Board	10,190	10,190
Education Maintenance Allowance	688	719
Schools for the Future Programme	1,408	-
European Grants	2,072	1,102
Private Sector Housing Grant	732	732
Criminal Justice Grant	2,894	2,799
Economic Growth Plan	25	1,500
Pupil Equity Funding	5,159	5,052
Home Energy Efficiency Programme for Scotland	998	1,745
Early Learning Childcare	2,897	739
Other Grants	4,143	5,084
Contribution from - Local Authorities	857	893
- NHS	7,157	7,157
Total Grants credited to Services	**89,920**	**91,138**

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 developer. The balances are as follows:-

	2018/19 £'000	2017/18 £'000
Developer Contributions	**21,855**	**14,740**

34. GENERAL FUND BALANCE

The following amounts have been earmarked within the General Fund Balance.

	Balance at 1 April 2017 £'000	Transfers Out 2017/18 £'000	Transfers In 2017/18 £'000	Balance at 1 April 2018 £'000	Transfers Out 2018/19 £'000	Transfers In 2018/19 £'0000	Balance at 31 March 2019 £'000
General Fund Balance	**25,262**			**23,906**			**17,663**
Movement in Earmarked Reserves							
Balances held by schools under a scheme of delegation	1,060	(210)	-	850	(4)	-	846
Energy Efficiency Fund	349	(36)	-	313	-	-	313
Modernisation Fund	3,764	(608)	-	3,156	(2,570)	-	586
Government Grants	5,538	(992)	1,500	6,046	(396)	-	5,650
Time Limited Projects	4,861	(3,119)	588	2,330	(1,259)	101	1,172
War Memorial Fund	44	-	-	44	(44)	-	-
Local Plan	110	(110)	-	-	-	-	-
Developer Contribution Fund	6,562	(148)	-	6,414	(558)	-	5,856
Use of Reserves to balance Revenue Budget	899	(899)	-	-	-	-	-
Anti-Poverty Fund	-	-	285	285	(142)	160	303
West Lothian Leisure Ltd.	-	-	1,200	1,200	(1,200)	-	-
General Revenue Grant 2018/19	-	-	1,167	1,167	(1,167)	-	-
Lifetime Alcohol Licensing Fund	-	-	-	-	-	464	464
Local Bus Provision	-	-	-	-	-	100	100
Total Earmarked Reserves	**23,187**	(6,122)	**4,740**	**21,805**	(7,340)	**825**	**15,290**
Uncommitted General Fund Balance	**2,075**			**2,101**			**2,373**

In accordance with both the School Boards Delegation and Devolved School Management schemes, a net credit balance of £0.846 million (£0.850 million 2017/18) is held within the General Fund. This sum represents the amount by which schools underspent their delegated schemes and may be used to supplement their 2019/20 budgetary provision. This sum, although held within the General Fund, must be spent on Education Services and is not available to the council for general use.

35. LEASING, PPP AND DBFM PAYMENTS

Leases

The council uses leased cars, street sweeping vehicles, occupies certain offices financed under the terms of various operating leases and leases windows and doors in some of the council's housing stock. The amounts paid under these arrangements were as follows:-

	2018/19 £'000	2017/18 £'000
Plant and Vehicles	2,662	3,126
Property	633	565
	3.295	**3,691**

Assets acquired under finance leases have been capitalised.

Operating Leases

The future cash payments required under operating leases are:-

			2018/19 £'000	2017/18 £'000
2019/20	(2018/19)	- Land and Buildings	652	565
		- Other Operating Leases	2,094	2,503
2020/21 to 2023/24	(2019/20 to 2022/23)	- Land and Buildings	1,549	1,209
		- Other Operating Leases	2,625	3,611
2024/25 onwards	(2023/24 onwards)	- Land and Buildings	7,009	5,625
		- Other Operating Leases	95	9

The cumulative value of leases in 2018/19 where the council is a lessor is £5.482 million for 743 units (£5.455 million for 743 units 2017/18).

Education Service PPP1 Schools Project

PPP1 is a 31 year Public Private Partnership contract which was awarded in August 2001 for the construction, extension and refurbishment of existing facilities, for three high schools, three primary schools and two nursery schools in Bathgate, Broxburn, Whitburn and Linlithgow. The contractor is responsible for the ongoing maintenance and operation of school facilities, which requires the ongoing procurement of construction services, plant and equipment. Contract expiry date is 7 November 2032.

The unitary charge is subject to annual RPI indexation. The PPP contractor has price risk for utilities, therefore the council may be entitled to a rebate on the unitary charge, this is reviewed bi-annually. The council is entitled to receive a share of any Refinancing Gain in accordance with a formula linked to the Equity IRR.

The council has rights to access the school facilities each school day. The contract specifies standards for the services to be delivered by the PPP contractor, with payment deductions to be made if facilities become unavailable or performance falls below the required standards. The school facilities and any plant and equipment installed in them at the end of the contract will be transferred to the council for nil consideration. Both parties have rights to terminate the contract, but compensation may be payable.

A number of minor changes to the arrangements have been made in the period, but none significant enough to change the risk profile of the project.

Education Service PPP3 Schools Project

PPP3 is a 31 year Public Private Partnership contract for the construction of new facilities, for two high schools in Livingston (Deans) and Armadale. The contractor is also responsible for the ongoing maintenance and operation of school facilities, which requires the ongoing procurement of construction services, plant and equipment. Contract expiry date is 16 August 2039.

The Unitary Charge is subject to annual RPI indexation. The parties share the benefit/cost of improving or not achieving the set utility consumption targets, so the council may be due a rebate on the unitary charge and this is reviewed annually. Whilst the council may have to meet any additional cost of insurance premiums, it may also benefit from their reduction. In addition, the council is entitled to receive a 50% share of a refinancing gain arising from a qualifying refinancing.

The council has rights to access the school facilities each week day, and each weekend. The contract specifies standards for the services to be delivered by the PPP contractor, with payment deductions to be made if facilities become unavailable or performance falls below the required standards. The school facilities and any plant and equipment installed in them at the end of the contract will be transferred to the council for nil consideration. Both parties have rights to terminate the contract, but compensation may be payable.

A number of minor changes to the arrangements have been made in the period, but none significant enough to change the risk profile of the project.

35. LEASING, PPP AND DBFM PAYMENTS (CONTINUED)

Education Service DBFM West Calder High School Project

DBFM is a 25 year Design, Build, Finance and Maintain (DBFM) contract for the construction of a new high school in West Calder to replace the existing high school. The project was in the construction phase at 31 March 2018. The school was handed over to the council on 29 June 2018 and became operational on 20 August 2018. The DBFM contractor is responsible for the majority of the ongoing maintenance of the school facilities, which requires ongoing procurement of construction services, plant and equipment. The council operates the school facilities (janitorial, cleaning and security services) and is responsible for some elements of ongoing maintenance, such as grounds maintenance, kitchen equipment maintenance, replacement floor finishes and redecoration. The contract expiry date is 29 June 2043.

The Monthly Service Payment is subject to annual RPI indexation. The council has price risk on insurance premiums and both price and consumption risk for utilities. The council is entitled to reive a 30% share of any refinancing gain arising from a qualifying refinancing.

The council has rights to access the school facilities every day of the calendar year. The DBFM contract specifies standards for the services to be delivered by the DBFM contractor, payment deductions to be made if facilities become unavailable or performance falls below the required standards. The school facilities must achieve a specified standard when they are handed over to the council on the contract expiry date. Both parties have rights to terminate the contract, but compensation may be payable.

PPP and DBFM Payments

The future cash payments under two PPP schools and the DBFM school contracts are analysed as follows:-

Range	Principal £'000	Interest £'000	Lifecycle Capital Costs £'000	Operating Costs £'000	Schools for the Future Revenue Funding £'000	2018/19 Total £'000	2017/18 Total £'000
Within one year	3,232	5,092	239	7115	(1,867)	13,811	12,727
2 to 5 years	13,470	20,056	1,458	33,513	(9,335)	59,162	53,687
6 to 10 years	18,107	18,346	2,624	50,498	(9,335)	80,240	73,839
11 to 15 years	23,705	11,943	924	52,131	(9,335)	79,368	79,683
16 to 20 years	22,457	5,810	-	41,205	(9,335)	60,137	52,816
21 to 25 years	8,245	849	-	5,646	(6,062)	8,678	15,774
	89,216	**62,096**	**5,245**	**190,108**	**(45,269)**	**301,396**	**288,526**

The Schools for the Future Programme, in order to ensure successful delivery of the DBFM Project at West Calder High School, has committed to provide revenue funding support for a period of 25 years commencing during 2018/19. The total amount of funding will total £46.677 million towards operating costs of the project.

36. RELATED PARTIES

The council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the council. Disclosure of these transactions allows readers to assess the extent to which the council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the council.

Scottish Government

Scottish Government has effective control over the general operations of the council. It is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. council tax bills, housing benefits). Grants received from Government Departments are set out in note 33.

Councillors

Members of the Council have direct control over the council's financial and operating policies. The total of Councillors Remuneration allowances paid in 2018/19 are shown in the Remuneration Report note 2.3 on page 27. There are no related party transactions with members of the council.

Officers

There are no related party transactions with officers of the council.

36. RELATED PARTIES (CONTINUED)

During the year, the council entered into a number of transactions with related parties which include Central Government, Other Local Authorities, the Joint Valuation Board and related companies.

EXPENDITURE	2018/19 £'000	2017/18 £'000
Government Payments		
PAYE and National Insurance	57,422	56,800
Superannuation – Teachers	12,763	12,702
Other Local Authority Payments		
Superannuation	27,120	24,338
Other Payments	720	926
Other Related Party Payments		
Joint Valuation Board	1,096	1,147
West Lothian Integration Board	63,833	64,457
West Lothian Leisure Ltd.	4,195	2,004
Councillors Remuneration	724	718
Criminal Justice Authority	3,534	3,834
SESTRAN / SESPLAN	32	66
Scotland Excel	115	114
	171,554	**167,106**
Other Related Party Income		
Other Local Authority Receipts	857	893
Criminal Justice Authority	2,894	2,799
	3,751	**3,692**
BALANCE SHEET		
The amounts due (to) or from related parties are detailed below:-		
Government departments	(3,606)	66
Other local authorities	(2,622)	(1,508)
Related companies		
- West Lothian Leisure Ltd.	1,829	1,427
- West Lothian Integration Joint Board	-	-
	(4,399)	**(15)**

HRA – INCOME AND EXPENDITURE STATEMENT — STATEMENT 9

PURPOSE	The HRA Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

		2018/19 £'000	2017/18 £'000
INCOME			
	Dwellings Rent (gross)	(46,967)	(45,695)
	Non-Dwellings Rent (gross)	(563)	(639)
	Other Income	(1,851)	(1,975)
	TOTAL INCOME	**(49,381)**	**(48,309)**
EXPENDITURE			
	Repairs and Maintenance	14,471	14,080
	Supervision and Management	8,465	8,603
	Depreciation and Revaluation of non-current assets	56,210	36,772
	Bad or Doubtful Debts	1,283	919
	Other Expenditure	3,253	3,703
	TOTAL EXPENDITURE	**83,682**	**64,077**
	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement	**34,301**	**15,768**
	HRA Services share of Corporate and Democratic Core (CDC)	100	97
	HRA Share of Employee Statutory Adjustment	9	(20)
	HRA share of Non-Distributed Costs	521	(6)
	Net Cost of HRA Services	**34,931**	**15,839**
	HRA share of the Operating Income and Expenditure included in the Comprehensive Income and Expenditure Statement		
	Profit on disposal of HRA assets	(135)	(1,534)
	Interest payable and similar charges	9,090	8,175
	Net interest on the net defined benefit liability	162	218
	Deficit for the year on HRA Services	**44,048**	**22,698**

MOVEMENT ON THE HRA STATEMENT — STATEMENT 10

PURPOSE

This statement summarises the differences between the outturn on the HRA Income and Expenditure Account and the HRA Balance.

MOVEMENT

	Note	2018/19 £'000	2017/18 £'000
Balance on the HRA at the end of the previous year		(926)	(926)
Deficit for the year on the HRA Income and Expenditure Statement		44,048	22,698
Adjustments between accounting basis and funding basis under regulations	1	(44,048)	(22,698)
(Increase) or decrease in year on the Housing Revenue Account		-	-
Balance on the HRA at the end of the current year		**(926)**	**(926)**

NOTES

1. **Adjustments between accounting basis and funding basis under regulations**

	2018/19 £'000	2017/18 £'000
Depreciation and Revaluation	(56,210)	(36,772)
Profit on disposal of HRA fixed assets	135	1,534
Share of Employee Statutory Adjustment	(9)	20
Amount by which pension costs calculated in accordance with IAS 19 are different from contributions due to the Lothian Pension Fund	(683)	(212)
	(56,767)	(35,430)
Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
Loans fund principal	5,086	4,609
Capital expenditure funded by HRA	7,633	8,123
Adjustments between accounting basis and funding basis under regulations	**(44,048)**	**(22,698)**

2. **Housing Stock**

The council's stock at 1 April 2018 was 13,244 houses and at 31 March 2019 were 13,678 houses. As a result the council was responsible for managing an average of 13,461 dwellings during 2018/19.

	2018/19 No of Houses	2017/18 No of Houses
Stock movements can be summarised as follows:-		
Stock as at 1 April	13,244	13,169
Additions	434	164
Less Demolitions	-	(6)
Less Stock restated	-	6
Less Sales	-	(89)
Stock as at 31 March	**13,678**	**13,244**
Housing Stock Numbers by type are as follows:		
1 Bed	2,547	2,428
2 Bed	6,442	6,242
3 Bed	4,083	3,998
4 Bed	467	450
More than 4 Bed	139	126
	13,678	**13,244**

3. **Rent Arrears at 31 March**

	2018/19 £'000	2017/18 £'000
Current Tenant	2,119	1,401
Former Tenant	1,120	1,076

4. **Losses on Void Properties at 31 March**

	2018/19 £'000	2017/18 £'000
Losses on void properties	441	241

5. **Bad Debt Provision**

	2018/19 £'000	2017/18 £'000
Bad Debt Provision for housing rent arrears and former tenant's debt.	2,574	1,899

COUNCIL TAX INCOME ACCOUNT — STATEMENT 11

PURPOSE

This statement shows the net income raised from Council Tax levied under the Local Government Finance Act 1992.

INCOME

	2018/19 £'000		2017/18 £'000
Gross council tax levied and contributions in lieu		89,510	85,846
Less:			
Discounts	(6,969)		(6,827)
Provision for bad debts	(1,805)		(1,732)
Council Tax Reduction Scheme	(9,451)		(9,164)
Other deductions	(2,292)		(2,491)
		(20,517)	(20,214)
		68,993	**65,632**
Adjustments for previous years' Council Tax		(107)	(52)
Transfers to General Fund		**68,886**	**65,580**

NOTES

1. Calculation of the Council Tax base 2018/19

	PROPERTY BANDS								
	A	**B**	**C**	**D**	**E**	**F**	**G**	**H**	**Total**
Properties	17,700	24,857	10,150	8,542	9,781	6,154	2,784	195	80,163
Exemptions	(853)	(745)	(260)	(146)	(88)	(50)	(18)	(12)	(2,172)
Disabled Relief	166	(70)	(15)	21	(26)	(33)	(42)	(1)	-
Discounts (25%)	(2,509)	(2,465)	(1,008)	(573)	(438)	(184)	(61)	(3)	(7,241)
Discounts (50%)	(61)	(59)	(32)	(22)	(13)	(9)	(2)	-	(198)
Empty Homes Premium	58	77	35	18	23	9	5	1	226
Council Tax Reduction Scheme	(4,672)	(4,189)	(1,152)	(436)	(237)	(74)	(18)	-	(10,778)
Effective Properties	9,829	17,406	7,718	7,404	9,002	5,813	2,648	180	60,000
Ratio to Band D	6/9	7/9	8/9	1	473/360	39/24	47/24	49/20	
Band D Equivalents	6,550	13,538	6,860	7,404	11,827	9,446	5,186	441	**61,252**
Contributions in lieu									-
Level of non-payment provided for									**1,531**
COUNCIL TAX BASE									**59,721**

2. The level of council tax depends upon the value of the property. Certain prescribed dwellings are exempt and discounts are given to eligible taxpayers i.e. single occupants. A Council Tax Scheme Reduction is available to taxpayers on a low income. Other deductions include Disabled Relief.

A bad debt provision of 2.25% of the net income from council tax has been provided, this represents a collection level of 97.75%.

3. The council tax charge for each band is as follows:-

Band	2018/19 Council Tax £	2017/18 Council Tax £
A	774.56	752.00
B	903.65	877.33
C	1,032.75	1,002.67
D	1,161.84	1,128.00
E	1,526.53	1,482.07
F	1,887.99	1,833.00
G	2,275.27	2,209.00
H	2,846.51	2,763.60

NON-DOMESTIC RATE INCOME ACCOUNT — STATEMENT 12

PURPOSE

This account shows the income from the rate levied on non-domestic property under the Local Government (Scotland) Act 1975 as amended by the Local Government Finance Act 1992.

INCOME

	2018/19 £'000	2018/19 £'000	2017/18 £'000
Gross rates levied and contributions in lieu		104,789	99,613
Less			
Reliefs and other deductions	(18,927)		(16,935)
Provisions for bad and doubtful debts	(1,222)		(2,009)
		(20,149)	(18,944)
Net non-domestic rate income		**84,640**	**80,669**
Allocated:			
National non-domestic rate pool		84,802	80,836
Cost of council rate relief		(162)	(167)
		84,640	**80,669**

NOTES

1. The amount distributed to West Lothian Council from the national non-domestic rate income pool in 2018/19 was £79.333 million (£90.056 million 2017/18).

2. Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for Lothian area. The National non-domestic rate poundage is determined by the Scottish Government and was 48.0p per £ in 2018/19 (46.6p in 2017/18). The rate was 50.6p (49.2p in 2017/18) for properties with a rateable value of more than £51,000. Properties with a rateable value of £18,000 or less are subject to a reduced charge if they meet the qualifying criteria under the small business bonus scheme.

3. Rateable values at 1 April 2018

	Number	Rateable Value £'000
Shops, Offices and other Commercial Subjects	3,094	78,613
Industrial Subjects	1,746	80,172
Miscellaneous (Schools etc.)	1,665	51,888
Total	**6,505**	**210,673**

4. There is no retained income from the Business Rates Incentivisation Scheme for 2018/19.

TRUSTS AND MORTIFICATIONS — STATEMENT 13

PURPOSE

The council acts as sole trustee for 40 Trusts and Mortifications. The funds do not represent the assets of the council and therefore they have not been included in the Balance Sheet.

The figures below summarise the Income and Expenditure arising during the year and the aggregate Assets and Liabilities of the Trusts at the year end.

	INCOME AND EXPENDITURE STATEMENT	2018/19 £'000	2017/18 £'000
EXPENDITURE	Beneficiaries	2	6
INCOME	Loans Fund and Dividend Interest	5	5
SURPLUS / (DEFICIT)	For Year	3	(1)
	At 1 April	379	380
	At 31 March	**382**	**379**
	BALANCE SHEET		
	Current Assets		
	Investments	47	47
	Revenue Advances to Loans Fund	335	332
		382	379
	Current Liabilities	-	-
	TOTAL ASSETS	**382**	**379**
	Reserves		
	Capital Fund	165	165
	Revenue Fund	217	214
	TOTAL RESERVES	**382**	**379**

NOTES

1. In order to preserve the capital value of Trust Funds, it is council policy to disburse only revenue income arising from them. This is done one year in arrears i.e. revenue income received during 2018/19 is disbursed in 2018/19.

2. The main fund balances where the Council is sole trustee at 31 March 2018 are:-

	Capital £'000	Revenue £'000
Irene Elizabeth Miller Trust	60	6
West Lothian Trust for the Benefit of People with Disabilities	41	15
Quarter Farm Trust	17	40
James Wood Bequest	14	54
Robert Turner of Armadale Trust	11	19

3. The council also administered five other trusts in 2018/19, which have external and council trustees. At 31 March 2019 the total assets of these trusts, valued at cost, was £0.213 million (£0.211 million at 31 March 2018).

COMMON GOOD ACCOUNT — STATEMENT 14

PURPOSE

The Common Good Fund was inherited from West Lothian District Council and the former Linlithgow Town Council at the respective reorganisations of local government in 1996 and 1975 and is administered by the Council. Income from the Fund may be applied for the benefit of inhabitants of Linlithgow.

The figures below summarise the Income and Expenditure arising during the year and the Assets and Liabilities of the Fund at the year end.

INCOME AND EXPENDITURE STATEMENT	2018/19 £'000	2017/18 £'000
Expenditure		
Donations	-	-
Income		
Interest	-	-
Surplus / (Deficit)	-	-
At 1 April	14	14
At 31 March	**14**	**14**

BALANCE SHEET	2018/19 £'000	2017/18 £'000
Non-Current Assets		
Heritable Property	1	1
Furnishings	4	4
	5	**5**
Current Assets		
Revenue Advances to Loans Fund	18	18
TOTAL ASSETS	**23**	**23**
FINANCED BY:		
Reserves		
Revenue Balance	14	14
Capital Reserve	9	9
TOTAL LOANS AND RESERVES	**23**	**23**

NOTES

1. Fixed Assets represent book values taken over from former councils as recorded in their Annual Accounts. They consist of:-

	£'000
Furnishings	4
Heritable Property	1
	5

2. LASAAC has issued guidance on the application of accounting requirements to Common Good assets. The council has not taken any action due to the insignificant amount involved (£5,000) and have not included this amount in their asset register.

3. Interest received in 2018/19 amounted to £154 (£134 2017/18).

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT - GROUP

STATEMENT 15

PURPOSE	The Comprehensive Income and Expenditure 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 (or rents). Authorities raise taxation (and rents) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

		2018/19			2017/18		
	Group Note	Gross Expend £'000	Gross Income £'000	Net Expend £'000	Gross Expend £'000	Gross Income £'000	Net Expend £'000
Schools, Education Support		246,931	14,514	232,417	232,994	10,060	222,934
Planning, Economic Development and Regeneration		13,259	5,163	8,096	15,533	5,345	10,188
Operational Services		87,853	8,668	79,185	81,548	8,870	72,678
Housing, Customer and Building Services		20,794	6,042	14,752	22,903	5,665	17,238
Corporate Services		2,246	1,068	1,178	1,779	585	1,194
Social Policy – IJB, Adult and Elderly Services		154,501	90,668	63,833	157,550	93,093	64,457
Social Policy – non-IJB, Children's Services		41,196	4,271	36,925	40,568	4,761	35,807
Chief Executive, Finance and Property		45,253	5,258	39,995	35,558	4,965	30,593
Joint Boards		1,128	-	1,128	1,213	34	1,179
Other Services		73,573	54,125	19,448	56,985	56,904	81
West Lothian Leisure Ltd.		14,488	9,241	5,247	14,053	9,425	4,628
Net Cost of General Fund Services		**701,222**	**199,018**	**502,204**	**660,684**	**199,707**	**460,977**
Housing Revenue Account		83,682	49,381	34,301	64,077	48,309	15,768
Net Cost of Services		**784,904**	**248,399**	**536,505**	**724,761**	**248,016**	**476,745**
Other Operating Expenditure		(2,252)	-	(2,252)	(2,417)	-	(2,417)
Financing and Investment Income and Expenditure		66,386	33,052	33,334	67,305	31,661	35,644
Share of corporation tax of Joint Venture		-	-	-	2	-	2
Taxation and Non-Specific Grant Income		-	402,956	(402,956)	-	397,904	(397,904)
Deficit on Provision of Services		**849,038**	**684,407**	**164,631**	**789,651**	**677,581**	**112,070**
Share of Operating Results of Associates and Joint Ventures		127,663	127,650	13	126,763	126,581	182
Deficit on Group		**976,701**	**812,057**	**164,644**	**916,414**	**804,162**	**112,252**
Items that will not be reclassified to the Deficit on the Provision of Services							
Surplus on revaluation of property, plant and equipment				(32,059)			(18,077)
Remeasurements of the net defined benefit liability / (asset)				35,414			(113,143)
Losses / (gains) on Investments in Associates and Joint Ventures				381			(1,364)
Items that may be reclassified to the Deficit on the Provision of Services				**3,736**			**(132,584)**
Deficit from investments in equity instruments designated at fair value through other comprehensive income				17			7
Other Comprehensive Income and Expenditure				**3,753**			**(132,577)**
Total Comprehensive Income and Expenditure				**168,397**			**(20,325)**

MOVEMENT IN RESERVES STATEMENT - GROUP — STATEMENT 16

PURPOSE	The Movement in Reserves Statement shows the movement from the start of the year to the end on the different reserves held by the authority analysed into ‘usable reserves’ (i.e. those that can be applied to fund expenditure or reduce local taxation) and other ‘unusable’ reserves. The Statement shows how the movements in year of the authority’s reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the Statutory General Fund Balance and Housing Revenue Account Balance Movements in year following those adjustments.

MOVEMENT IN RESERVES STATEMENT - GROUP
AS AT 31 MARCH 2019

	Group Note	Single Entity Usable Reserves (Note 1) £’000	Single Entity Unusable Reserves (Note 1) £’000	Group Reserves (Note 2) £’000	Total Group Reserves £’000
Balance at 1 April 2017		**103,550**	**803,687**	**(5,868)**	**901,369**
Movement in Reserves during 2017/18					
Total comprehensive income and expenditure		(110,081)	130,008	398	20,325
Adjustments between accounting basis and funding basis under regulations		100,451	(100,451)	-	-
Net increase (decrease) before transfers to other statutory funds		(9,630)	29,557	398	20,325
Transfers to or from other statutory funds		-	-	-	-
Increase (decrease) in year		**(9,630)**	**29,557**	**398**	**20,325**
Balance at 31 March 2018	**G3**	**93,920**	**833,244**	**(5,470)**	**921,694**
Movement in Reserves during 2018/19					
Total comprehensive income and expenditure		(163,653)	(2,361)	(2,383)	(168,397)
Adjustments between accounting basis and funding basis under regulations		160,426	(160,426)	-	-
Net increase (decrease) before transfers to other statutory funds		(3,227)	(162,787)	(2,383)	(168,397)
Transfers to or from other statutory funds		-	-	-	-
Increase (decrease) in year		**(3,227)**	**(162,787)**	**(2,383)**	**(168,397)**
Balance at 31 March 2019	**G3**	**90,693**	**670,457**	**(7,853)**	**753,297**

1. Statement 5 and notes 12 and 13 to the Annual Accounts provide details of the Single Entity Reserves.

2. Note G3 to the Group Accounts provides details of the Combining Entities Reserves.

BALANCE SHEET - GROUP STATEMENT 17

PURPOSE

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Fund that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that are adjustment accounts that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

LONG TERM ASSETS	Group Note	As at 31 March 2019 £'000	As at 31 March 2018 £'000
Property, Plant and Equipment			
- Council Dwelling		378,305	374,955
- Other Land and Buildings		1,005,036	1,034,287
- Vehicles, Plant, Furniture and Equipment		15,860	19,022
- Infrastructure Assets		231,995	219,005
- Community Assets		657	591
- Assets under construction		37,403	66,041
- Surplus Assets, not yet held for disposal		22,709	19,194
		1,691,965	1,733,095
Heritage Assets		779	779
Long Term Investments		553	270
TOTAL LONG TERM ASSETS		**1,693,297**	**1,734,144**
CURRENT ASSETS			
Short Term Investments		92,401	54,212
Inventories		1,532	1,072
Short Term Debtors		33,661	38,025
Cash and Cash Equivalents		27,220	31,808
Intangible Assets		461	639
TOTAL CURRENT ASSETS		**155,275**	**125,756**
CURRENT LIABILITIES			
Short Term Borrowing		(99,733)	(99,802)
Short Term Creditors		(74,212)	(64,191)
Provisions		(953)	(1,212)
Capital Grants Receipts in Advance		(21,855)	(14,740)
TOTAL CURRENT LIABILITIES		**(196,753)**	**(179,945)**
NET CURRENT ASSETS (LIABILITIES)		**(41,478)**	**(54,189)**
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,651,819**	**1,679,955**
LONG TERM LIABILITIES			
Long Term Creditors		(476)	(1,077)
Long Term Borrowing		(524,092)	(488,641)
Defined Benefit Scheme Liability		(286,697)	(207,066)
Other Long Term Liabilities		(85,984)	(60,630)
Share of Net Liabilities of Associates and Joint Venture	**G3**	(1,273)	(847)
TOTAL LONG TERM LIABILITIES		**(898,522)**	**(758,261)**
TOTAL NET ASSETS		**753,297**	**921,694**
Financed by:			
USABLE RESERVES			
General Funds Balance		18,444	24,133
Housing Revenue Fund Balance		926	926
Capital Fund		61,713	58,963
Insurance Fund		10,391	10,125
TOTAL USABLE RESERVES		**91,474**	**94,147**
UNUSABLE RESERVES		**661,823**	**827,547**
TOTAL RESERVES		**753,297**	**921,694**

The unaudited accounts were considered by the Audit Committee on 24 June 2019 and the audited accounts were authorised for issue on 24 September 2019.

Donald Forrest

DONALD FORREST CPFA, Head of Finance and Property Services **24 September 2019**

CASH FLOW STATEMENT - GROUP — STATEMENT 18

PURPOSE	The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

	Group Note	**2018/19 £'000**	**2017/18 £'000**
Net deficit on the provision of services of Group		**(164,644)**	**(112,252)**
Adjustments to deficit on the provision of services for non-cash movements		234,181	168,516
Net cash flows from Operating Activities		69,537	56,264
Net cash flows from Investing Activities		(134,856)	(21,414)
Net cash flows from Financing Activities		60,731	(18,371)
Net (decrease) / increase in cash and cash equivalents		**(4,588)**	**16,479**
Cash and cash equivalents at the beginning of the reporting period		**31,808**	**15,329**
Cash and cash equivalents at the end of the reporting period		**27,220**	**31,808**

NOTES TO THE GROUP ACCOUNTS STATEMENT 19

G1. ACCOUNTING POLICIES

The group accounting policies are those specified for the single entity financial statements as detailed in Statement 8 note 1. The accounting policies of all group members are materially the same as those of the single entity.

G2. WEST LOTHIAN INTEGRATION JOINT BOARD

The West Lothian Integration Joint Board (IJB) was established as a body corporate by order of Scottish Ministers on 21 September 2015, and is a separate and distinct legal entity from West Lothian Council and NHS Lothian. The arrangements for the IJB's operation, remit and governance are set out in the integration scheme which was approved by West Lothian Council, NHS Lothian and the Scottish Government.

The IJB's purpose is to set the strategic direction for the delegated functions through the development of a Strategic Plan. Relevant functions and resources from the council and NHS Lothian were delegated to the West Lothian IJB from 1 April 2016 to enable it to plan the delivery of functions and deliver on strategic outcomes. The IJB gives directions to the council and NHS Lothian as to the functions to be delivered and the resources available to deliver the functions.

The IJB meets on a six weekly basis and is made up of eight voting members, comprising four elected members appointed by West Lothian Council and four NHS Lothian non-executive directors appointed by NHS Lothian. The IJB Audit Risk and Governance Committee and Strategic Planning Group have been set up to support integrated policy and strategic development and to ensure IJB business adheres to the principles of good corporate governance.

The IJB is defined as a joint venture. The net expenditure of the IJB for 2018/19 is £63.833 million (2017/18 £64.457 million). It should be noted that this expenditure does not include support services such as Human Resources, Legal and Financial Services which are not delegated to the IJB and are provided free of charge to the IJB. The IJB does not employ staff directly delivering services and does not hold cash resources or operate a bank account. The IJB accounts for 2018/19 show the Balance Sheet with assets and reserves of the IJB of £0.480 million.

G3. COMBINING ENTITIES

The council has a number of non-consolidation interests in other entities, full details of which are shown on pages 87 and 88.

West Lothian Leisure is a company limited by guarantee, it was assessed that the council exerted significant influence and control and as such, West Lothian Leisure is treated as a subsidiary of the council for financial reporting.

Lothian Valuation Joint Board is deemed to be an associate.

The council has joint control and right to net assets in West Lothian Recycling Ltd and West Lothian Integration Joint Board, which are both defined to be joint ventures.

The following shares of the accounts of these bodies have been included within the Group Accounts.

Subsidiary

West Lothian Leisure Ltd. (WLL) is a subsidiary body of the council and the details are as follows:

- The Chief Executive of WLL, Robin Strang, will retire at the end of September 2019. WLL have accrued an amount of £85,792 within its financial statements for an additional payment made to the Chief Executive to be paid on his retirement. The payment was authorised by the WLL Board in line with the established governance structures in place at WLL. As a result there was one employee, the Chief Executive, of WLL whose remuneration in 2018/19 was £150,000 or more.
- WLL have appointed a new Chief Executive who will take up the position on 1 October 2019
- There were no Councillors of West Lothian Council remunerated by the body in 2018/19

The council has not paid any consideration for its interests in West Lothian Leisure Ltd. and therefore no goodwill is involved in the acquisition. All intra-group transactions have been eliminated from the Group Accounts as part of the consolidation process. The subsidiary has been consolidated on a line by line basis.

		2018/19	2017/18
Associates			
Valuation Joint Board	- basis - WLC funding to total funding	18.74%	18.76%
Joint Venture			
West Lothian Recycling Ltd.	- basis - 50% of share capital	50%	50%
West Lothian Integration Joint Board	- basis - WLC representation on board	50%	50%

The summarised Financial Information of the associate, subsidiary and joint ventures are detailed below:

Council share of Associate, Subsidiary and Joint Ventures		Valuation Joint Board £'000	West Lothian Leisure £'000	West Lothian Recycling £'000	Integration Joint Board £'000	Total £'000
Total Assets	**2018/19**	426	2,383	77	240	**3,126**
	2017/18	449	2,989	132	-	**3,570**
Total Liabilities and shareholders' equity	**2018/19**	(1,871)	(8,963)	(145)	-	**(10,979)**
	2017/18	(1,343)	(7,612)	(85)	-	**(9,040)**
Net Assets / (Liabilities)	**2018/19**	(1,445)	(6,580)	(68)	240	**(7,853)**
	2017/18	(894)	(4,623)	47	-	**(5,470)**
Included in Surplus / (Deficit) in Group	**2018/19**	(285)	(804)	-	240	**(849)**
	2017/18	(210)	(1,926)	(35)	-	**(2,171)**

NOTES TO THE GROUP ACCOUNTS STATEMENT 19

G3. COMBINING ENTITIES (CONTINUED)

The summarised reserves of the associate, subsidiary and joint ventures are detailed below:

Council share of Associate, Subsidiary and Joint Ventures		Valuation Joint Board £'000	West Lothian Leisure £'000	West Lothian Recycling £'000	Integration Joint Board £'000	Total £'000
General Fund Balance	**2018/19**	168	441	(68)	240	**781**
	2017/18	150	30	47	-	**227**
Capital Fund	**2018/19**	-	-	-	-	**-**
	2017/18	-	-	-	-	**-**
Capital Grants Unapplied A/C	**2018/19**	-	-	-	-	**-**
	2017/18	-	-	-	-	**-**
Capital Receipts Reserve	**2018/19**	-	-	-	-	**-**
	2017/18	-	-	-	-	**-**
Total Usable Reserves	**2018/19**	168	441	(68)	240	**781**
	2017/18	150	30	47	-	**227**
Unusable Reserves	**2018/19**	(1,613)	(7,021)	-	-	**(8,634)**
	2017/18	(1,044)	(4,653)	-	-	**(5,697)**
Total Reserves	**2018/19**	(1,445)	(6,580)	(68)	240	**(7,853)**
	2017/18	(894)	(4,623)	47	**-**	**(5,470)**

The accounting year for the Valuation Joint Board, West Lothian Leisure Ltd. and the West Lothian Integration Joint Board ends 31 March 2019, while West Lothian Recycling Ltd is the 31 December 2018. There have not been any significant transactions or events between 31 December 2018 and 31 March 2019, therefore no adjustment is required to the position of West Lothian Recycling Ltd. The associate and joint ventures have been accounted for using the equity method.

The Trusts, Mortifications and the Common Good Fund, which the council manage, have not been included in the Group Accounts on the grounds of materiality. Full details of these accounts can be found in Statements 13 and 14 on pages 80 and 81.

G4. FINANCIAL IMPACT OF CONSOLIDATION

The effect of inclusion of the associate, subsidiary and joint ventures on the Group Balance Sheet as at 31 March 2019 (2018) is to reduce the net assets by £7.853 million (£5.470 million) representing the council's share of net liabilities of these organisations. The net liabilities are attributable to the Lothian Valuation Joint Board which has significant pension liabilities under IAS 19 of £1.665 million (£1.333 million) and West Lothian Leisure Ltd. with pension liabilities of £7.021 million (£4.653 million).

Further information regarding these deficits can be found in the annual report and accounts of the relevant bodies.

G5. GROUP COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

The 2018/19 (2017/18) share of Associates pension interest cost and expected return on pension assets is £0.031 million (£0.061 million). These figures are not included in the Group Comprehensive Income and Expenditure Account as they are part of the IAS 19 pension entries which are reversed out in arriving at the share of operating results of associates for the year.

G6. NON-CONSOLIDATION INTEREST IN OTHER ENTITIES

The council has a relationship with the following companies which have been set up for specific purposes. The following companies are not consolidated into the Group Accounts as it is not considered that the council is able to exert a significant influence over any of the entities and participation is deemed to be immaterial.

Accounts of the companies may be obtained on application to the Head of Finance and Property Services.

6.1 WL Ventures Group Limited

The company is limited by guarantee and was set up to promote industry and commerce within West Lothian. The council has a right to nominate six members and directors.

The unaudited (audited) accounts for the period ended 31 March 2019 (2018) show a profit before and after tax of £7,834 (£8,431 loss) with net assets of £647,736 (£639,902).

6.2 West Lothian Enterprise Limited

The company is limited by guarantee. The principal activity is the management of funds designed for investments in industrial and commercial businesses with a view to promoting economic development. The company commenced in 2012/13.

The unaudited (audited) accounts for the period ended 31 March 2019 (2018) show loss before and after tax of £1,470 (breakeven) with net liabilities of £50,871 (£49,401).

West Lothian Enterprise Limited is currently working with external auditors Mazars, as it is in the final stages of being wound up. It is anticipated this will be concluded by October 2019.

6.3 Visit West Lothian Limited

Visit West Lothian Limited was set up in August 2008 as a company limited by guarantee. The company consists of one employee, the Tourism Executive, and a board of 7 Directors comprising 1 council representative and 6 stakeholders. The purpose of the company is to promote and develop West Lothian as a visitor destination. As part of this the company aims to maximise the economic impact of West Lothian's visitor potential, improve the quality of the visitor experience and raise the profile of the locality. The company is funded by the council but also works to access available funding sources and generate additional revenue.

The unaudited (audited) accounts for the year ended 31 March 2019 (2018) show a breakeven position before tax (profit before tax of £3,779) and breakeven position after tax (profit after tax of £3,779) with net assets of £29,192 (£29,192).

G6. NON-CONSOLIDATION INTEREST IN OTHER ENTITIES (CONTINUED)

6.4 The West of Scotland Archaeology Service

This body was set up in 1997 as a Joint Committee of local authorities in the area. It is currently funded by 10 local authorities and Historic Scotland for Specific Projects. Its primary purpose is to provide planning related archaeological advice to its members, permitting them to discharge their duties in respect of Scottish Executive planning guidance for the treatment of archaeological remains in the planning process. During the year, the council made a contribution of £12,691 (£12,691 2017/18) representing 7.12% (8.47% 2017/18) of the Committee's estimated running costs for the year to 31 March.

6.5 South East of Scotland Transport Partnership (SESTRAN)

The council is a member of SESTRAN, one of seven statutory regional transport partnerships set up under the Transport (Scotland) Act 2005. SESTRAN has a membership of 8 local authorities and they have a statutory duty to produce a Regional Transport Strategy Plan and provide the council with capital grant for West Lothian projects within the plan. During the year, the council made a contribution of £21,722 (£21,751 2017/18) and had a voting share of 12.5%.

6.6 SESplan is the Strategic Development Planning Authority for Edinburgh and South East Scotland (SESplan)

The council is a member of SESplan. SESplan is composed of 6 local authorities that have a statutory duty under Section 4 of the Planning (Scotland) Act 2006 to work together to prepare, and keep under review, a Strategic Development Plan (SDP) for the South East of Scotland. During the year, the council made a contribution of £10,000 (£44,000 2017/18) to the running costs of SESplan, representing 17% (17% 2017/18) of the authority's running costs. The council has a voting share of 17%.

6.7 Scotland Excel

Scotland Excel was launched in April 2008 to establish a centre of procurement expertise for the local government sector in Scotland. Its remit is to work collaboratively with the 32 local authority members and external suppliers to raise procurement standards, secure best value for customers and to improve the efficiency and effectiveness of public sector procurement in Scotland. During 2018/19, the council made a contribution of £114,675 (£113,930 2017/18), 3.3% (3.3% 2017/18) of Scotland Excel's funding.

6.8 Seemis Group LLP

Seemis Group is the software provider of the standard management Information system within Scottish Education and works closely with its members and the strategic bodies responsible for education direction in Scotland. West Lothian's student data is processed and managed by Seemis software. Seemis supports local authorities and their associated schools in delivering their statutory and discretionary responsibilities. During 2018/19, the council made a contribution of £161,076 (£137,343 2017/18), 3.9% (3.9% 2017/18) of Seemis Group LLP's funding.

Customers with special requirements

Information is available in Braille, on tape, in large print and community languages.
Please contact the Interpretation and Translation Service on **01506 280000**.

هذه المعلومات متوفرة بلغة بريل وعلى شريط وبخط كبير وبلغات الجالية.
الرجاء الإتصال بخدمة الترجمة على الهاتف 01506 280000

এই তথ্য আপনি ব্রেইল, টেপ, বড় অক্ষরে এবং কমিউনিটির বিভিন্ন ভাষাগুলিতেও পাবেন। অনুগ্রহ করে ইন্টারপ্রেটেশান অ্যান্ড ট্রান্সলেশন সার্ভিসের সঙ্গে যোগাযোগ করুন। টেলিঃ 01506 280000

這份資料是可以凸字、錄音帶，大字印刷及社區語言的式本提供。請聯絡傳譯及翻譯服務部，電話：01506 280000

ਇਹ ਜਾਣਕਾਰੀ (ਬ੍ਰੇਲ) ਨੇਤ੍ਰਹੀਨ ਦੇ ਪੜ੍ਹਣ ਵਾਲੀ ਲਿਪੀ, ਟੇਪ, ਵੱਡੇ ਪ੍ਰਿੰਟ ਅਤੇ ਸਮਾਜ ਦੀਆਂ ਹੋਰ ਭਾਸ਼ਾਵਾਂ ਵਿਚ ਉਪਲਬਧ ਹੈ। ਕ੍ਰਿਪਾ ਕਰਕੇ ਇੰਟਰਪ੍ਰੇਟੇਸ਼ਨ ਅਤੇ ਟਰਾਂਸਲੇਸ਼ਨ ਸਰਵਿਸ ਨੂੰ ਇਸ ਨੰਬਰ ਤੇ ਸੰਪਰਕ ਕਰੋ : 01506 280000

یہ معلومات بریل (اندھوں کے رسم الخط)، ٹیپ، بڑے حروف کی طباعت اور کمیونٹی میں بولی جانے والی زبانوں میں دستیاب ہے۔
براہ مہربانی انٹرپریٹنگ اینڈ ٹرانسلیٹنگ سروس سے ٹیلیفون نمبر 01506 280000 پر رابطہ قائم کریں۔

Informacje te moga byc przelozone na jezyk Braille'a, dostepne na tasmie magnetofonowej lub wydane duzym drukiem oraz przetlumaczone na jezyki mniejszosci narodowych.
Prosimy o kontakt z Uslugami Tlumaczeniowymi pod numerem 01506 280000.

Published by West Lothian Council, Civic Centre, Livingston EH54 6FF

Text phones offer the opportunity for people with a hearing impairment to access the council. The text phone number is **01506 591652**. A loop system is also available in all offices

Any enquiries to:
West Lothian Council
West Lothian Civic Centre
Howden South Road
Livingston
EH54 6FF