

## NOTES TO THE ANNUAL ACCOUNTS

## STATEMENT 8

**Financial Assets Measured at Fair Value 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 2024 was £28.306 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.

**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 in 2022/23 which were valued at net realisable value. The valuation was 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 was not considered material.

In 2023/24 the council had no stock of Deer and Highland Cows.

**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 enables users of the annual accounts to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts.

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. All new income streams are 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.