EAST LOTHIAN COUNCIL

STATEMENT OF ACCOUNTS

2006/07

CONTENTS

FOREWORD

Welcome to the Council's accounts for 2006/07. I hope you find these to be an understandable guide to the most significant financial matters that have arisen over the year for the Council. In writing this foreword for you it is not my intention to comment on the policies of the authority, rather to explain the financial facts that should help you form your own view.

The accounts that follow are prepared in accordance with the relevant accounting standards and statutory requirements. These are applied in East Lothian by using the Accounting Policies explained in the section that follows this foreword.

The main statements are the Core Financial Statements, which are:

- Income and Expenditure Account: this outlines the financial performance of the Council in 2006/07 (1 April 2006 to 31 March 2007).
- Balance Sheet: this details the net worth of the Council at 31 March 2007 after taking into account the performance for the year shown in the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses.
- Statement of Total Recognised Gains and Losses, which itemises changes in net worth including those that are not recorded in the Income and Expenditure Account.
- Cash Flow Statement: this provides another way of looking at the performance for the year removing the accrual of income and expenditure (see Accounting Policy 2) and showing how the cash in and out of the Council has affected the opening and closing cash position.
- Statement of Movement on the General Fund Balance: the statutory accounting requirements that the Council must follow are sometimes different from the Accounting Standards that we are also required to follow. When this happens statutory requirements take precedence, which means we then have to reconcile the Income and Expenditure Account prepared under Accounting Standards with the statutory position.

In addition to these main statements we have provided more information through the notes, supplementary statements and Group statements.

Performance compared to budget
When the 2006/2007 revenue budget was agreed in February 2006 the Council anticipated that it would need to use almost £1.0 million of its £1.5 million reserves to help balance the budget. This has not turned out to be the case. Instead, the Income and Expenditure Account for the year shows a surplus for the year of £514,000. This amount, along with a further £2.06 million, has now been added to the Authority's General Services balance. This balance stood at £5.7 million on 31 March 2007, including approximately £2.0 million relating to schools. The main reasons for this positive performance have been highlighted below.

Council Tax is by far the most significant source of income over which we have control. Our performance in this area has been one of the most encouraging features of the year. Firstly, we raised more Council Tax than we anticipated – mainly due to new house building and the increase in the number of new properties on which this tax becomes due. Overall, we had expected to raise £41.0 million from this source but by the end of the year almost £43.1 million had been raised. Secondly, we collected more of the tax due from residents. The total council tax debt at the end of the year was £9.76 million. This was a decrease of 4.6% on the council tax debt figure at the end of the 2005/2006 financial year. This trend allowed us to reduce our estimate of the debt that we might not be able to collect, which in turn had a further positive effect on the Council Tax income in the year.

Our financial performance was also helped by good budgetary control across most Departments. While this was not universal, it was generally the case that budget holders managed their service within the amount allocated by the Council. As an example, the Education & Children's Services Department, which had the largest departmental budget of £73.83 million managed to under-spend slightly by approximately £0.1 million. This was against a background of significant financial challenges such as the introduction of reduced class contact time for teachers, the expansion of nursery places and the general pressures of operating the Children & Families social work service.

Individual schools have also ended the year in a positive financial situation. The level of earmarked balances under the Devolved School Management (DSM) scheme during 2006/2007 increased from £1.66 million to £1.99 million.

The Housing Revenue Account is an account we must keep for statutory reasons to record all the expenditure and income relating to the Council housing stock. The results for the year are much in line with budget expectations. Interest charges were slightly higher than expected as the acceleration in the Council's affordable housing plans led to higher borrowings. At the same time allowance had to be made for slightly higher rental debts at the end of the year. The net effect of these events was that the planned transfer of £3.2 million from the Housing Revenue Account to General Services was reduced slightly to £2.9 million. 144 council houses were sold during the year. This is a decrease from 2005/2006 when 188 properties were sold under the Right to Buy legislation. To counterbalance some of this loss, we bought 68 properties on the open market.

The purchase of these properties, along with other measures, did not have a noticeable downward effect on amounts spent on housing homeless individuals and families. The amounts being spent on our responsibilities under the homeless legislation are now increasing at a higher rate than any other service cost across the Council. During 2006/2007 we spent £1.9 million on the Homelessness service. This compares to £1.6 million in 2005/2006. On Bed & Breakfast provision we spent £0.33 million more than we planned in the year. The management of homelessness spending will continue to be a significant challenge in 2007/2008 and beyond, especially as proposed changes in national legislation will further weaken our ability to control these costs.

Another major issue for us will be the management of the Adult Social Work Services budget over the coming years. The management of this budget has proved difficult over at least the past five years as a result of national initiatives and population change. While the 2006/2007 budget was increased by over 8% it became clear fairly early in the year that there was still a potential for overspend. As a result some extra steps were taken to manage expenditure. Ultimately however these were unsuccessful and the Group ended the year with an overspend of £0.515 million.

The financial performance of most of our trading operations has improved during the year. Roads Services, Property Maintenance, Investment Properties and Facility Services all produced healthy surpluses for the year. Sportplus has had difficulties over the past two years meeting the income targets set for it as part of the budget. More details on the trading activities' financial performance are provided in note 3 to the Core Financial Statements.

One relatively new addition to the East Lothian Core Financial Statements is the inclusion of results for other organisations within the East Lothian 'Group'. These are bodies that the Council is deemed to either control or influence to such an extent that we should report their financial results with the Council results in order to give a fair representation of the Council's overall financial position. The Group includes Musselburgh Racecourse, East Lothian Land Ltd, Council Charitable Trusts, Common Good Funds and the Lothian & Borders Police, Fire and Valuation Boards.

The inclusion of the Police Board has the biggest influence on the Group Account results included in the 2006/07 financial statements. The deficit for the year on the Group Income & Expenditure Account of £7.26 million is due primarily to a deficit of over £7million on the Lothian & Borders Police Income & Expenditure account, which reflects the large liability for Police Pensions that the Board manages and over which the Council has no direct control. However, it should be noted in the medium to long-term, current financing arrangements mean that part of the financial liability for Police pensions will have to be funded by the Council.

Pensions

Changes in Accounting Standards (FRS17) have led to considerable comment about the financial position of public sector pension schemes, and in these accounts (especially note 28) you will find extensive information that has been provided by an independent actuary on the Council's pension position.

The current position is that the Council's pension liability has been assessed as being £52.5m at 31 March 2007. This is a significant improvement on the position a year ago (liability £80.4m). The change is mainly due to improved investment values, which demonstrates just how volatile the pensions liability calculation actually is.

Despite the large swings in the reported position of the pension liability, the underlying position is unchanged. In the long-term, the liability will continue to be measured and monitored, with the required changes made to the cash contributions the Council makes to the Pension Fund as part of an assessment made by an independent actuary every 3 years.

This is a long established process designed to ensure that in the long-term funding is available to meet long-term liabilities, and it is a better arrangement than the numerous unfunded pension schemes often operated within government, where the future liability is not clear and no processes have been established to match assets and liabilities in the long-term.

Change in Accounting Policies

To comply with changes in Accounting Standards requirements, we made 3 significant changes to accounting policies, and these are explained in Note 1 to the Core Financial Statements.

Capital Investment Plans

In 2006/07, we invested £39.5m in service delivery within East Lothian, which is slightly less than the previous year (£40.3m). The Council plans to continue this level of investment in future years.

We usually finance capital investment by using long-term borrowing, although investment in our 6 secondary schools has been delivered through a PPP. During 2006/07 long-term borrowing increased significantly to £175.6m. This financed the 2006/07 capital investments and will provide some of the finance for investment in 2007/08. We chose to borrow earlier than we normally would within the 3-year planning cycle as we anticipated an increase in interest rates during 2007/08, which has since occurred.

Ultimately the cost of borrowing, whether through debt or to meet PPP unitary charge payments has to be met from future tax, grant or rent receipts which are the main sources of funding for the Council. Receipts from these sources are shown in the Income & Expenditure Account and the Supplementary Statement for the Housing Revenue Account. It is important to understand that when organisations lend to us they secure that debt on our future income stream not on our fixed assets. In this context any major change in the income stream may have a significant impact on our investment plans.

With this uncertainty in mind, we look forward to what 2007/08 brings.

David Spilsbury
Head of Corporate Finance
28 June 2007

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2006/07 financial year and its position at the year-end of 31 March 2007. Unless otherwise disclosed, it has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice 2006 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

In the 2006/07 Statement of Accounts, the Council has adopted three significant new accounting policies that impact on some of the comparative figures for 2005/06. These are explained in Note 1 to the Core Financial Statements.

2. Accruals of Income and Expenditure

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

- Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.

- Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the balance sheet.

- Works are charged as expenditure as and when the expenditure is certified.

- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment. Interest on Revenue Balances is charged or credited to revenue accounts in accordance with LASAAC Guidance Note 2.

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

- Where a significant debtor or creditor exists but the value is not known, then an estimated value is used based on the best information available at the time the accounts were prepared.

- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

3. Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that the authority 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 set up in the balance sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled.

4. Reserves

Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance statement so that there is no net charge against Council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and do not represent usable resources for the Council - these reserves are explained in the relevant policies below.

5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

6. Retirement Benefits

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

- The Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA).

- The Local Government Pensions Scheme, administered by Lothian Pension Fund.

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

However, the arrangements for the Teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme - no liability for future payments of benefits is recognised in the balance sheet and the Education service revenue account is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Pension Scheme

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

The liabilities of the Lothian Pension Fund attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate based on the gross redemption yield on the iboxx Sterling Corporates Index, AA over 15 years.

The assets of the Lothian Pension Fund attributable to the Council are included in the balance sheet at their fair value:

- Quoted securities - mid-market value

- Unquoted securities - professional estimate

- Unitised securities - average of the bid and offer rates

- Property - market value.

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

- Current service cost - the increase in liabilities as result of years of service earned this year - allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked

- Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs

- Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Income and Expenditure Account

- Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to Net Operating Expenditure in the Income and Expenditure Account

- Gains/losses on settlements and curtailments - the result of actions to relieve the Council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs

- Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Total Recognised Gains and Losses

- Contributions paid to the Lothian Pension Fund - cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising Council tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Expenditure that arises as a result of an award to any member of staff is accounted for in the year it arises using the same policies as are applied to the Teachers Pension Scheme.

7. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue & Customs and all VAT paid is recoverable from them.

8. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of the Corporate and Democratic Core i.e. costs relating to the Council's status as a multi-functional, democratic organisation.

This is accounted for in the Income and Expenditure Account, as part of Net Cost of Services.

9. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licenses) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

10. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement: Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Investment properties and assets surplus to requirements - lower of net current replacement cost or net realisable value

- Dwellings, other land and buildings, vehicles, plant and equipment - lower of net current replacement cost or net realisable value in existing use

- Infrastructure assets and community assets - depreciated historical cost.

Net current replacement cost is assessed as:

- Non-specialised operational properties - existing use value

- Specialised operational properties - depreciated replacement cost

- Investment properties and surplus assets - market value.

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted for by:

- Where attributable to the clear consumption of economic benefits - the loss is charged to the relevant service revenue account

- Otherwise - written off against the Fixed Asset Restatement Reserve.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

Amounts in excess of £1,000 are categorised as capital receipts and are credited to the Capital Fund. They are used to finance new capital investment or to meet the cost of debt repayments. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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

Depreciation: depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

Deprecation is calculated on the following bases:

- Dwellings and other buildings - straight-line allocation over the life of the property as estimated by the valuer
- Vehicles, plant and equipment - straight-line allocation over the life of the asset as advised by a suitably qualified officer.
- Infrastructure - straight-line allocation over 25 years.

Community assets do not have a determinable finite life and are not depreciated.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service revenue account, in line with the depreciation policy applied to them.

11. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise Council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing. Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

12. Leases

Finance Leases

The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset - the liability is written down as the rent becomes payable) and

- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

In 2006/07 this policy has no effect as the Council has no finance leases.

Operating Leases

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

13. Repurchase of Borrowing

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue on a straight-line basis over the term of the replacement loans.

14. Investments

Investments are carried at cost. If the value of an investment falls below its cost, the investment is written down to market value and a provision for the unrealised loss made in the Income and Expenditure Account if this is unlikely to be a temporary fall.

15. Stocks and Work in Progress

Stocks are included in the balance sheet at a value based on the latest purchase price. The difference between this practice and that recommended is not considered to be material.

Work in progress is accounted for using monthly, certified work valuations that are charged to the capital asset when the payment is made to the supplier. Due to the timing of these valuations, this leaves no significant work in progress to be shown on the balance sheet. The difference between this practice and that recommended is not considered to be material.

16. Interests in Companies and Other Entities

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as investments, i.e. at cost, less any provision for losses.

17. Public Private Partnership (PPP) Contracts

PPP contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PPP contractor. Payments made by the Council under a contract are charged to revenue to reflect the value of services received in each financial year.

Prepayments

A prepayment for services receivable under the contract arises when assets are transferred to the control of the PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the authority at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment. The prepayment is written down (charged) to the respective revenue account over the life of the contract to show the full value of services received in each year. However, as the charge is a notional one, it is reversed out in the Statement of Movement on the General Fund Balance to remove any impact on Council tax or rents.

Residual Interests

Where assets created or enhanced under the PFI scheme are to pass to the Council at the end of the scheme at a cost less than fair value, an amount equal to the difference between the fair value and the payment to be made at the end of the contract is built up as an intangible asset over the contract life by reducing the amount of the unitary payment charged to revenue.

Statement of Responsibilities for the Statement of Accounts

The authority's responsibilities

The authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Head of Corporate Finance, who is the designated Chief Finance Officer.

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

The Chief Finance Officer's responsibilities

The Chief Finance Officer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

In preparing this Statement of Accounts, the Chief Finance Officer has:

- Selected suitable accounting policies and then applied them consistently

- Made judgments and estimates that were reasonable and prudent

- Complied with the Code of Practice.

- Kept proper accounting records which were up to date

- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chief Finance Officer's Certification

I certify that the Statement of Accounts presents fairly the financial position of the authority at 31 March 2007 and its income and expenditure for the year ended 31 March 2007.

David Spilsbury
Head of Corporate Finance
28 June 2007

Income and Expenditure Account

This account summarises the resources that have been generated and consumed in providing services and managing the Council during the last year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

Restated Previous Year Net Expenditure £000s		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
4,219	Central services	21,631	(18,197)	3,434
14,573	Cultural and related services	21,328	(5,208)	16,120
75,178	Education services	89,886	(15,239)	74,647
7,943	Environmental services	10,433	(2,105)	8,328
1,768	Housing services (non-HRA)	22,666	(20,145)	2,521
11,037	Joint Board Requisitions	11,690	-	11,690
3,923	Local authority housing (HRA)	22,482	(17,099)	5,383
1,643	Planning & development services	3,716	(1,802)	1,914
9,291	Roads and transport services	14,680	(6,615)	8,065
35,385	Social Work services	57,077	(17,646)	39,431
164,960	**Net Cost of Services**	**275,589**	**(104,056)**	**171,533**
(9,141)	Gains on the disposal of fixed assets			(3,116)
6,595	Interest payable and similar charges			8,117
(606)	Interest and investment income			(1,199)
188	Non-distributed costs			(3,335)
1,296	Pensions interest cost and expected return on pensions assets			(1,626)
163,292	**Net Operating Expenditure**			170,374
(39,776)	Council tax			(43,150)
(5)	Community charge arrears			(11)
(88,937)	General government grants			(93,760)
(34,149)	Non-domestic rates redistribution			(33,967)
425	**(Surplus) or Deficit for the Year**			**(514)**

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Council's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the authority is required to raise Council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Council's spending against the Council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to funds and reserves.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

Restated Previous Year £000s		**Current Year £000s**
425	Surplus for the year on the Income and Expenditure Account	(514)
(285)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(2,059)
140	Increase in General Fund Balance for the Year	(2,573)
(3,298)	General Fund Balance brought forward	(3,158)
(3,158)	General Fund Balance carried forward	(5,731)

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Restated Previous Year £000s		Current Year £000s
425	(Surplus) or Deficit for the year on the Income and Expenditure Account	(514)
(1,371)	Surplus arising on revaluation of fixed assets	(176,586)
(1,656)	Actuarial (gains) /losses on pension fund assets and liabilities	(24,126)
(2,602)	Total recognised gains for the year	(201,226)

Balance Sheet as at 31 March 2007

31 March 2006 £000s			31 March 2007 £000s
	Fixed assets		
-	**Intangible Fixed Assets**		215
	Tangible Fixed Assets		
	Operational assets:		
214,417	Council dwellings	221,418	
150,566	Other land and buildings	332,290	
4,897	Vehicles, plant, furniture and equipment	5,861	
39,174	Infrastructure assets	41,598	
7,029	Community assets	8,168	
	Non-operational assets:		
18,546	Investment properties	19,264	
1,950	Assets under construction	9,330	
967	Surplus assets held for disposal	967	638,896
437,546	**Total fixed assets**		639,111
1,000	Long-term investments		1,000
39,993	Long-term debtors		40,707
5,353	Deferred premiums on the early repayment of debt		5,116
483,892	**Total long-term assets**		685,934
	Current assets		
354	Stocks and work in progress	421	
7,900	Short-term Loans	32,184	
42,757	Debtors	39,006	
(22,533)	Bad and Doubtful Debt provision	(22,131)	
-	Cash and bank	9,382	
			58,862
512,370	**Total assets**		744,796
	Current liabilities		
(5,292)	Borrowing repayable on demand or within 12 months	(4,997)	
(25,217)	Creditors	(21,437)	
(1,963)	Bank overdraft	-	
			(26,434)
479,898	**Total assets less current liabilities**		718,362
	Long-term liabilities		
(115,916)	Borrowing repayable within a period in excess of 12 months		(175,563)
(7,411)	Deferred liabilities		(6,224)
(28,730)	Government grants and other contributions deferred		(36,299)
(2,666)	Provisions		(1,711)
(80,390)	Liability related to defined benefit pension scheme		(52,554)
244,785	**Total assets less liabilities**		446,011
	Financed by:		
(134,583)	Capital Financing Account		(129,424)
(186,183)	Fixed Asset Restatement Account		(359,043)
80,390	Pensions reserve		52,554
-	Capital Fund		(2,941)
(751)	Insurance Fund		(926)
(500)	Housing Revenue Account balance		(500)
(3,158)	General Fund balance		(5,731)
(244,785)	**Total net worth**		(446,011)

David Spilsbury
Head of Corporate Finance
28 June 2007

Cash Flow Statement

Previous Year £000s		Current Year £000s	£000s
	Revenue Activities		
	Cash outflows		
113,498	Cash paid to and on behalf of employees	117,518	
94,673	Other operating cash payments	96,441	
5,966	Housing Benefit paid out	7,019	
11,156	Requisitions paid	11,802	232,780
	Cash inflows		
(8,000)	Rents (after rebates)	(8,356)	
(40,758)	Council Tax receipts	(42,591)	
(33,458)	Non-domestic rate receipts	(34,372)	
(88,938)	Revenue Support Grant	(93,760)	
(14,604)	DSS grants for benefits	(14,734)	
(18,940)	Other government grants	(25,192)	
(17,754)	Cash received for goods and services	(12,302)	
(13,308)	Other operating cash receipts	(19,380)	(250,687)
(10,467)	Net cash inflow from revenue activities		(17,907)
	Dividends from joint ventures and associates		
	Cash inflows		
(69)	Dividends received		(86)
	Returns on Investments and Servicing of Finance		
	Cash outflows		
6,392	Interest paid	8,504	
	Cash inflows		
(323)	Interest received	(1,097)	7,407
	Capital Activities		
	Cash outflows		
41,980	Purchase of fixed assets	47,806	
	Cash inflows		
(13,828)	Sale of fixed assets	(6,843)	
(9,044)	Capital grants received	(7,395)	33,568
14,641	**Net cash inflow/outflow before financing**		22,982
	Management of Liquid Resources		
(1,484)	Net increase/decrease in short-term deposits	24,321	
	Financing		
	Cash outflows		
125	Repayments of amounts borrowed	46,324	
	New loans made	999	
	Cash inflows		
(13,973)	New loans raised	(105,971)	(34,327)
(691)	**Net Increase/decrease in cash**		(11,345)

1. Explanation of prior period adjustments

In the 2006/07 Statement of Accounts, the Council has adopted three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- Capital financing charges for the use of fixed assets are no longer made to service revenue accounts, support services and trading accounts
- Credits for government grants deferred are now posted to service revenue accounts, support services and trading accounts rather than credited as a corporate income item
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are included in the table):

	Consol- idated Revenue Account in 2005/06 Statement of Accounts	Removal of capital financing charges	Relocat- ion of govern- ment grants deferred credits	Recogn- ition of gains and losses on disposal of fixed assets	2005/06 compara- tives in Income and Expend- iture Account
	£000s	£000s	£000s	£000s	£000s
Central services	4,219	-	-	-	4,219
Cultural and related services	16,180	(1,488)	(119)	-	14,573
Education services	79,466	(3,851)	(437)	-	75,178
Environmental services	8,296	(134)	(219)	-	7,943
Housing services (non-HRA)	1,808	(40)	-	-	1,768
Local authority housing (HRA)	(4,269)	8,304	(112)	-	3,923
Planning & development services	2,305	(647)	(15)	-	1,643
Roads and transport services	11,247	(1,800)	(156)	-	9,291
Social Work services	35,829	(414)	(30)	-	35,385
Impact on Net Cost of Services	155,081	(70)	(1,088)	-	153,923
Gains on the disposal of fixed assets	-	-	-	(9,141)	(9,141)
Asset management revenue account (Interest payable and similar charges in 2006/07)	4,901	606	1,088	-	6,595
Interest and investment income	(70)	(536)	-	-	(606)
Impact on Net Operating Expenditure	159,912	-	-	(9,141)	150,771

2. Note of reconciling items for the Statement of Movement on the General Fund Balance

Previous Year £000s			Current Year £000s
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
(17,032)	Depreciation and impairment of fixed assets	(18,524)	
(27)	Deferred asset written down	(27)	
1,088	Government Grants Deferred amortisation	1,402	
9,141	Net gains on sale of fixed assets	3,116	
(10,098)	Net charges made for retirement benefits in accordance with FRS 17	13,913	
(16,928)			**(120)**
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
4,829	Loans fund principal repayments	5,155	
2,139	Capital expenditure charged in-year to the General Fund Balance	-	
9,810	Employer's contributions payable to the Lothian Pension Fund	(10,203)	
16,778			**(5,048)**
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
-	Transfer to/(from) the Capital Fund	2,934	
(135)	Transfer to/(from) the Insurance Fund	175	
(135)			**3,109**
(285)	**Net additional amount required to be credited to the General Fund balance for the year**		**(2,059)**

3. Trading Operations

The Council has established 5 trading operations where the service manager is required to operate in a commercial environment and meet their unit's costs by generating income from other parts of the authority or other organisations. Each operation is obliged under statute to achieve break-even over a rolling three-year period. Three of the units where set up in 2003/04 and were first assessed against the statutory target at the end of 2005/06. Two other operations started in 2005/06 and will first be assessed on this basis at the end of 2007/08. Details of those units are as follows:

Facility Services

The Facility Services Trading Operation provides catering, janitorial and cleaning services at locations owned or managed by the Council. A catering service is provided at secondary and primary schools and at some other buildings. The cleaning operation provides a regular building cleaning service to all departments of the Council. The cumulative position over the three years is a deficit of £208,000. This is almost entirely due to an exceptional item of back dated pay provision of £460,000 within the 2005/2006 financial year. If this element were excluded from the figures below this trading operation would have a surplus of £252,000 over the three-year period.

	2006/07 £000s	2005/06 £000s	2004/05 £000s
Turnover	6,811	7,077	6,067
Surplus/(Deficit)	33	(383)	142
3-year Cumulative Surplus/(Deficit)	(208)		

Sportplus

Sportplus manages the Council's leisure service. This includes a number of sports centres, swimming pools and sports pitches. The cumulative position at the end of 2006/2007 is a deficit of £686,000 over the three years. While some of this deficit is due to the exceptional item of back dated pay provision in the 2005/06 financial year of £216,000, a larger element relates to the difficulty that this trading operation has had of meeting the income targets set for it as part of the budget setting process. Work is underway to transfer the operation and management of the Council's leisure services to a not for profit company during the 2007/2008 financial year.

	2006/07 £000s	2005/06 £000s	2004/05 £000s
Turnover	4,039	4,182	3,849
Surplus/(Deficit)	(288)	(365)	(33)
3-year Cumulative Surplus/(Deficit)	(686)		

Investment Properties

The Authority owns or leases a variety of commercial rental units that are let to tenants. These are let on normal commercial terms and are aimed at developing economic activity in the area. The cumulative financial position at the end of 2006/2007 was a surplus of £649,000.

	2006/07 £000s	2005/06 £000s	2004/05 £000s
Turnover	966	923	826
Surplus/(Deficit)	443	213	(7)
3-year Cumulative Surplus/(Deficit)	649		

Building Services

Building Services provides property maintenance services. The majority of work is undertaken on the Council's housing stock. This trading operation has now been operating for two years. After a deficit in its first year the results of the trading operation have improved during 2006/2007. The cumulative position over the first two years is now a surplus of £139,000.

	2006/07 £000s	2005/06 £000s
Turnover	8,522	8,179
Surplus/(Deficit)	282	(143)

Roads Services

Roads Services carries out a repair and maintenance service to enable the Council to fulfil its statutory obligations. The extent of its work includes roads network repair and maintenance. This includes routine and cyclical maintenance. After a small deficit in its first year this trading operation now has a cumulative financial surplus on its activities of £187,000.

	2006/07 £000s	2005/06 £000s
Turnover	5,697	4,981
Surplus/(Deficit)	219	(32)

4. Expenditure on publicity

A requirement of section 5(1) of the Local Government Act 1986 is that the Council's spending on publicity is accounted for separately and publicly disclosed.

The Council’s expenditure on publicity covers a range of information provided to the public about the services it provides ranging from arts or heritage events to the times and locations of Councillors surgeries.

Expenditure was a follows:

	2006/07 £000s	Restated 2005/06 £000s
Arts & Heritage	11	20
Corporate Publicity	26	27
Councillors Surgeries	21	12
Healthy Living	16	24
Other Advertising	8	5
Total	82	88

5. Agency income and expenditure

The Council does not provide agency services to other bodies i.e. incur expenditure specifically to provide a service to another body that should be excluded from these accounts.

It does share services with other authorities (e.g. special education or social work facilities) but the expenditure on these services is incurred so that the Council can perform its duties rather than the duties of another organisation.

6. Local Authority (Goods and Services) Act 1970

The Council is empowered by this Act, as amended by the Local Government in Scotland Act 2003, to trade in goods and services with other public bodies, companies and the general public. It does not undertake any significant trading activity.

7. Members' allowances

In 2006/07, £0.44m (£0.46m) was paid as Councillors allowances, including travel, subsistence and conference expenses.

8. Officers' remuneration

Remuneration includes salary, expense, allowance and severance payments, but excludes pension contributions.

Band	2006/07 £000s	2005/06 £000s
£110,000-119,999	1	1
£100,000-109,999	-	-
£90,000 - £99,999	3	3
£80,000 - £89,999	4	-
£70,000 - £79,999	7	10
£60,000 - £69,999	6	8
£50,000 - £59,999	29	15
Total	50	37

9. Related parties

The Council is required to disclose material transactions with related parties i.e. 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 helps you 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.

Central 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 it's funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out in a note relating to the Cash Flow Statement.

Members of the Council have direct control over the Council's financial and operating policies. During 2006/07, no works and services were commissioned from companies in which members had an interest. In addition, the Council paid grants and contributions totalling £24.4m to voluntary and statutory organisations (including Joint Boards) in which 21 members had an interest. The grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of all these interests are recorded for each Councillor in their Register of Interests, open to public inspection at www.eastlothian.gov.uk - go to Home>East Lothian Council>Who is my Councillor.

Senior Officers of the Council have significant control and influence over the Council's financial and operating policies. During 2006/07, no works or services were commissioned from companies in which senior officers had an interest. The Council paid grants totalling £1.71m to voluntary organisations in which 5 senior officers had an interest. All of these organisations are included in the above note for Members of the Council. The grants were made with proper consideration of declarations of interest. The relevant officers did not take part in any discussion or decision relating to the grants.

Companies and joint ventures - the Council has substantial interests in companies and relevant transactions are disclosed in the note 20.

10. Audit costs

Audit Scotland has been appointed as the Council's auditor by the Accounts Commission and requisitioned a fee of £0.25m (£0.44m) from the Council to recover their costs.

The Council has no discretion over the services provided. Audit services include those leading to the production of the auditors report on these accounts and a variety of studies and reviews undertaken at the discretion of Audit Scotland and the Accounts Commission.

11. Capital expenditure and fixed asset disposals

Operational assets

	Council dwellings £000s	Other land and buildings £000s	Vehicles, plant, etc £000s	Infra-structure £000s	Comm-unity assets £000s	Total £000s	Prev-ious Year £000s
Net book value of assets at 31 March 2006	214,417	150,566	4,897	39,174	7,029	416,083	393,812
Movement in year							
Additions	19,623	9,470	2,716	6,263	1,148	39,220	40,332
Disposals	(3,727)	-	-	-	-	(3,727)	(4,687)
Revaluations & Transfers	-	176,102	-	155	(9)	176,248	3,658
Depreciation	(8,895)	(3,848)	(1,752)	(3,994)	-	(18,489)	(17,032)
Impairments	-	-	-	-	-	-	-
Net book value of assets at 31 March 2007	221,418	332,290	5,861	41,598	8,168	609,335	416,083

Non-operational assets

	Investment properties £000s	Assets under construction £000s	Surplus assets held for disposal £000s	Total £000s	Previous Year £000s
Net book value of assets at 31 March 2006	18,546	1,950	967	21,463	24,493
Movement in year					
Additions	380	7,380	-	7,760	1,999
Disposals	-	-	-	-	-
Revaluations & Transfers	338	-	-	338	(5,029)
Depreciation	-	-	-	-	-
Impairments	-	-	-	-	-
Net book value of assets at 31 March 2007	19,264	9,330	967	29,561	21,463

Capital expenditure and financing

	2006/07 £000s	2005/06 £000s
Gross Capital Expenditure		
Intangible Assets	250	-
Operational assets	39,220	40,332
Non-operational assets	7,760	1,999
	47,230	42,331
Gross Capital Income		
Capital receipts	(6,837)	(13,828)
Government grants and other contributions	(8,971)	(5,868)
	(15,808)	(19,696)
Sums set aside from revenue	-	(2,139)
Debt finance	(31,422)	(20,496)
Gross Capital Financing	(47,230)	(42,331)

12. Commitments under capital contracts

As at 31st March 2007, the Council had the following major contracts in place and was committed to expenditure as detailed below.

	£000s
Tranent North Primary School	8,872
SEN Facility at Ross High School, Tranent	1,575
Dolphingstone Recycling Plant, Wallyford	1,255
North Berwick Sport Pavilion	681
Council House Re-roofing Works	500
Dunbar Town House Refurbishment	418
Fire Risk Assessment Works at Various Sites	250
St Martin's Primary Alterations & Refurbishment	235
St Martins/Foresters Park; Sports changing & climbing wall	167
Penston House, Macmerry	120
	14,073

13. Information on assets held

The fixed assets owned by the Council and valued above include the following -

COUNCIL DWELLINGS	8,209
OPERATIONAL BUILDINGS	
Council Offices	49
Libraries & Museums	14
Halls	17
Shelters	14
Community & Sports Centres	43
Social Work Facilities	34
Public Toilets	30
Waste Facilities	6
Depots & Stores	37
Special Education Facilities	2
Pre-5 Schools	4
Primary Schools	35
VEHICLES & PLANT	
Vehicles & Plant	94

INFRASTRUCTURE ASSETS	
Sea Walls & Harbours	4
Cycleways	2
COMMUNITY ASSETS	
Parks	96
Play Areas	80
Cemeteries	33
Historic Buildings	18
Walkways	12
Works of Art (Items)	15
Civic Regalia (Items)	8
NON-OPERATIONAL ASSETS	
Commercial Offices	
Shops	50
Leased Stores & Workshops	54

14. Assets held under lease

Operating leases

Authority as Lessee

Vehicles and Plant - the authority uses vehicles and plant financed under terms of an operating lease. The amount paid under these arrangements in 2006/07 was £2.56m (2005/06 £3.15m). The SORP requires charges to be made evenly throughout the period of the lease.

The authority was committed at 31 March 2007 to making future payments of £1.923m under operating leases, comprising the following elements:

	Vehicles, Plant and Equipment £000s
Leases expiring in 2007/08	300
Leases expiring between 2008/09 and 2012/13	1,416
Leases expiring after 2012/13	207

15. Assets recognised under a PPP arrangement

During 2002/03 the Council entered into a long-term partnership with Innovate East Lothian Ltd for the provision of enhanced secondary school facilities and a new community centre and swimming pool. The amount paid under these arrangements in 2006/07 was £7.33m (£7.01m). The partnership is planned to continue until 2034/35.

The contract payments in future years required under this agreement are estimated to total £262.92m (£270.22m) as itemised below.

	£000s
Obligations payable in 2007/08	7,442
Obligations payable between 2008/09 and 2012/13	39,113
Obligations payable after 2012/13	216,360
Total liabilities at 31 March 2007	262,915

16. Valuation information

The Council has a rolling programme for the revaluation of fixed assets every 5 years. The District Valuer undertakes the majority of valuations that are carried out externally, with some valuations being made by internal Council Estates staff. All valuers are RICS qualified.

Fixed Asset Category	Basis of Valuation	Valuation Date	Valued by
Council Dwellings	Existing Use Value - Social Housing	01-Apr-04	District Valuer (RICS)
Non-operational Property	Open Market Value	01-Apr-05	East Lothian Council (RICS)
Operational Property	Existing Use	01-Apr-06	District Valuer (RICS)
Specialised Operational Property	Depreciated Replacement Cost	01-Apr-06	District Valuer (RICS)
Vehicles/Plant	Historic Cost or nominal value	Date Acquired	N/A
Equipment	Historic Cost or nominal value	Date Acquired	N/A
Community Assets	Historic Cost or nominal value	Date Acquired	N/A
Infrastructure Assets	Historic Cost or nominal value	Date Acquired	N/A

Operational property was revalued on 1 April 2006. The Council is not aware of any other material change in the asset values since the last revaluation and hence the valuations have not been updated.

17. Depreciation methodologies

Fixed assets are depreciated over their estimated useful lives. The straight-line method has been used over the following periods:

Council Dwellings	10-50 years
Infrastructure	25 years
Operational Property	5-60 years
Vehicles & Equipment	5-15 years

Depreciation is not charged on Community assets and Non-operational property.

18. Intangible Fixed Assets

	Software Licenses £000s
Original Cost	-
Amortisations to 1 April 2006	-
Balance at 1 April 2006	-
Expenditure in Year	250
Depreciation	(35)
Balance at 31 March 2007	215

During 2006/07 software licences were acquired for office and schools PC software. The cost is being written off over the estimated useful life of those licenses.

19. Analysis of net assets employed

	31 March 2007 £000s	31 March 2006 £000s
General Services	225,240	33,775
Housing Revenue Account	220,771	211,010
Total	446,011	244,785

20. Interests in companies

East Lothian Council holds 200,000 £1 Ordinary shares in Lothian Buses plc. This represents 3.13% of the total share capital. At 31 December 2006 the net assets of the group amounted to £33.28m (2005: £22.92m) after a year in which a profit on ordinary activities before taxation of £7.32m (2005: £16.27m) was returned. During the year the Council received final dividends totalling 34.34p per share (2005/06 final dividend 34.34p)

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the period of trading to 31

March 2007 show net assets of £0.397m (31 March 2006: £0.395m), and a profit before taxation of £0.001m (31 March 2006: loss £0.02m). All profit has been retained by the company. No dividend was received.

The Council is also interested, at zero book cost, in East Lothian Investments Limited, a company limited by guarantee set up in 1998 to hold investments inherited from the former Lothian Investments Board and intended to support the development of businesses in East Lothian. The net assets of the company at 31 March 2007 amounted to £0.27m (31 March 2006: £0.27m). The results for the period to 31 March 2007 showed a loss after taxation of £0.002m (31 March 2006: profit £0.02m). No dividend was received.

East Lothian Land Limited is included in the Group Accounts.

Copies of the accounts of these companies may be obtained from the Head of Corporate Finance, East Lothian Council.

21. Borrowing

	31 March 2007 £000s	Restated 31 March 2006 £000s
Loan Type		
Public Works Loan Board	(146,983)	(107,106)
Intra-group loans	(4,577)	(5,102)
Market loans	(29,000)	(9,000)
	(180,560)	(121,208)
Loan Maturity		
Repayable after more than 10 years	(164,727)	(100,637)
Repayable between 5 and 10 years	(8,153)	(8,068)
Repayable between 2 and 5 years	(2,231)	(6,791)
Repayable between 1 and 2 years	(452)	(420)
Long-term borrowing	(175,563)	(115,916)
Repayable within 1 year	(4,997)	(5,292)
	(180,560)	(121,208)

22. Provisions

Included within gross expenditure is the following provision against known future costs.

	Employee pay and grading £000s	Housing Associations - development funds £000s	Total	Previous Year £000s
Balance at 1 April 2006	2,282	384	2,666	-
Expended during the Year	(959)	(384)	(1,343)	(3,068)
Additions to the Provision	-	388	388	5,734
Balance at 31 March 2007	1,323	388	1,711	2,666

The Council is undertaking a review of its pay and grading methodology to ensure that it complies with Equalities legislation, which will lead to significant retrospective compensation payments. The timing of when these costs will materialise is uncertain but a prudent provision to meet the costs has been made.

Under Scottish Executive direction, any funds raised by reducing the second home or empty property Council Tax discount must be allocated to Housing Associations for the development of affordable housing. Funds not yet allocated are held in this provision.

23. Reserves

The Council keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans.

Reserve	Balance 1 April 2006 £000s	Net Movement in Year £000s	Balance 31 March 2007 £000s	Purpose of Reserve	Further Detail of Movements
Capital Financing Account	(134,583)	5,159	(129,424)	Store of capital resources set aside to meet past expenditure	See below
Fixed Asset Restatement Account	(186,183)	(172,860)	(359,043)	Store of gains on revaluation of fixed assets	See below
Pensions Reserve	80,390	(27,836)	52,554	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 28 to the Core Financial Statements
Capital Fund	-	(2,941)	(2,941)	Resources available to fund capital expenditure or debt repayment	See below
Insurance Fund	(751)	(175)	(926)	Resources available to meet future liabilities	See below
Housing Revenue Account balance	(500)	-	(500)	Resources available to meet future running costs for council houses	HRA Statements
General Fund	(3,158)	(2,573)	(5,731)	Resources available to meet future running costs for non-housing services	Statement of Movement on the General Fund Balance
Total	(244,785)	(201,226)	(446,011)		

	Fixed Asset Restatement Account £000s	Capital Financing Account £000s	Capital Fund £000s	Insurance Fund £000s
Balance 1 April 2006	(186,183)	(134,583)	-	(751)
Movement in 2006/07				
Revaluation of assets	(176,586)	-	-	-
Disposal of assets	3,726	(6,835)	(7)	-
Deferred Grant Release	-	(1,402)	-	-
Depreciation	-	18,524	-	-
PPP Residual Asset	-	27	-	-
Provision for Loan Repayment	-	(5,155)	-	-
Surplus for Year	-	-	(2,934)	(175)
Balance 31 March 2007	(359,043)	(129,424)	(2,941)	(926)

24. Contingent liabilities and contingent assets

The Council is a scheme creditor of Municipal Mutual Insurance Ltd. This insurance organisation ceased operation in 1992 but has outstanding claims liabilities that are being managed by a residual board until they are extinguished. The maximum potential liability for the Council is £0.66m. The board have notified the Council that it does not expect to require this funding as it expects to either clear existing claims within its own funds or sell outstanding business to another company. However, there is a possibility that the Council may have to finance a payment from revenue at some point in the future.

25. Authorisation of accounts for issue

As the proper officer, the Head of Corporate Finance has the authority to issue the Statement of Accounts dated as at the date of signature i.e. 28 June 2007. The proper officer also has the authority to amend the statements after issue as necessary.

26. Trust funds

The Council is either the sole trustee or represents the majority of the trustees for a range of trusts that have arisen due to bequests to the Council. These are managed collectively as East Lothian Charitable Funds and further details are provided in the Supplementary Financial Statements.

	Income £000s	Expenditure £000s	Assets £000s	Liabilities £000s
Richardson Bequest *To provide housing for deserving residents of Haddington*	(107)	4	1,491	-
John Hume Fund *To provide for the upkeep of property, and support building apprentices*	(45)	13	332	(127)
Wrights and Masons Trust *To provide for the upkeep of property, and to promote secondary education*	(11)	5	263	-
Dunbar Memorial Fund *To provide care and assistance to elderly residents of Haddington*	(17)	4	242	-
Browns Bequest *To provide dental treatment for the poor of Musselburgh*	(14)	1	200	-
James McKelvie Trust *For the poor passing through the town of Musselburgh*	(12)	1	162	-

27. Reserves and balances held by schools under delegated schemes

Under the Council's Devolved School Management (DSM) scheme, all funding unused by schools as at 31 March is available to schools to spend the following financial year. These funds are carried forward as part of the Council's General Services Balances.

At 31 March 2007, unused school funds amounted to £1.99m (£1.66m). Of this sum 42 (32) schools have a carry-forward surplus of £2.01m (£1.76m) while 3 (13) schools have a carry-forward deficit of £0.02m (£0.10m).

28. Retirement benefits

Participation in Pensions Schemes

As part of the terms and conditions of employment of its officers and other employees, the authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The authority participates in the Local Government Pension Scheme, administered by the City of Edinburgh Council as the Lothian Pension Fund. This is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Transactions Relating to Retirement Benefits

We recognise the cost of retirement benefits in the Net Cost of Services when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	2006/07 £000s	2005/06 £000s
Income and Expenditure Account		
Net Cost of Services:		
Current service cost	11,454	8,607
Past service costs	(3,335)	113
Settlements & Curtailments	-	82
Net Operating Expenditure:		
Interest cost	15,454	14,063
Expected return on assets in the scheme	(17,080)	(12,767)
Net Charge to the Income and Expenditure Account	6,493	10,098
Statement of Movement in the General Fund Balance		
Reversal of net charges made for retirement benefits in accordance with FRS 17	13,913	(10,098)
Actual amount charged against the General Fund Balance for pensions in the year:	(10,203)	9,810

Assets and Liabilities in Relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:

	31 March 2007 £000	31 March 2006 £000
Estimated liabilities in scheme	(309,850)	(313,930)
Estimated assets in scheme	257,296	233,540
Net asset/(liability)	(52,554)	(80,390)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £52.6m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Hymans Robertson LLP, an independent firm of actuaries, has assessed the liabilities with estimates for the Council Fund being based on the latest full valuation of the scheme as at 31 March 2005.

The main assumptions used in their calculations were:

	2006/07	2005/06
Rate of inflation	3.2%	3.1%
Rate of increase in salaries	4.7%	4.6%
Rate of increase in pensions	3.2%	3.1%
Rate for discounting scheme liabilities	5.4%	4.9%
Take-up of option to convert annual pension into retirement grant	25.0%	-

Scheme assets are valued at fair value, principally market value for investments, totalling £257.3m for the Fund as a whole at 31 March 2007 (£233.5m at 31 March 2006). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	Long-term Return %	31 March 2007 %	31 March 2006 %
Equity investments	7.8	76.7	81.9
Bonds	4.9	5.4	5.9
Property	5.8	12.3	10.7
Other assets	4.9	5.6	1.5
		100.0	100.0

Actuarial Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2007:

	2002/03		2003/04		2004/05		2005/06		2006/07	
	£000s	%	£000s	%	£000s	%	£000s	%	£000s	%
Differences between the expected and actual return on assets	(45,072)	-36.9	25,193	0.2	5,390	3.0	37,083	15.9	1,530	0.6
Differences between actuarial assumptions about liabilities and actual experience	1,373	0.8	1,148	0.0	(2,457)	1.0	(1,559)	0.5	2,404	0.8
Changes in the demographic and financial assumptions used to estimate liabilities	-	-	-	-	(43,853)		(33,868)		20,192	
	(43,699)		26,341		(40,920)		1,656		24,126	

Defined contribution scheme

Teachers employed by the authority are members of the Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA). It provides teachers with defined benefits upon their retirement, and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2006/07, the Council paid £4.31m to Teachers' Pensions in respect of teachers' retirement benefits, representing 12.5% of pensionable pay. The figures for 2005/06 were £4.13m and 12.5%. There were no contributions remaining payable at the year-end.

The Scheme is a defined benefit scheme. Although the scheme is unfunded, Teachers' Pensions use a notional fund as the basis for calculating the employers' contribution rate paid by local education authorities. However, it is not possible for the authority to identify a share of the underlying liabilities in the scheme attributable to its own employees. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. In 2006/07, the Council paid £0.39m to Teachers' Pensions in respect of these retirement benefits. The figure for 2005/06 was £0.46m.

29. Notes relating to the Cash Flow statement

Reconciliation of net surplus/deficit on the Income and Expenditure Account to the revenue activities net cash flow in the Statement

	2006/07 £000s	2005/06 £000s
General Services Deficit/(Surplus) for Year	(514)	425
Interest Paid (Net)	(6,624)	(6,083)
Depreciation and impairment of fixed assets	(18,524)	(17,032)
Deferred asset written down	(27)	(27)
Government Grants Deferred amortisation	1,402	1,088
Net gains on sale of fixed assets	3,116	9,141
Net charges made for retirement benefits in accordance with FRS 17	(6,493)	(8,518)
Employer's contributions payable to the Lothian Pension Fund	10,203	8,230
(Increase)/decrease in revenue long term-debtors & liabilities	811	1,286
Increase/(decrease) in stock	68	(54)
Increase/(decrease) in other current assets	(4,023)	5,963
(Increase)/decrease in revenue creditors	2,698	(4,886)
NET CASH (INFLOW) FROM REVENUE ACTIVITIES	(17,907)	(10,467)

Reconciliation of items under the Financing and Management of Liquid Resources sections to the opening and closing Balance Sheets

	2006/07 £000s	2005/06 £000s
Long-term Loans Decrease/(Increase)	(59,647)	(13,610)
Short-term Loans Decrease/(Increase)	24,321	(1,722)
Net advances of loans	999	-
Financing Outflow/(Inflow) per statement	(34,327)	(15,332)

Liquid resources

Liquid resources are those assets the Council hold that can be readily converted into cash at short notice at face value. The only assets the Council has of this type are short-term loans.

Analysis of government grants

	2006/07 £000s	2005/06 £000s
Supporting People Grant	(8,336)	(9,653)
Specific Grant - Benefit Administration	-	(563)
Specific Grant - Sheltered Employment	(74)	(68)
Specific Grant - Mental Illness	(223)	(223)
Specific Grant - Social Work Training	(116)	(94)
Specific Grant - Education National Priorities Action Fund	(4,126)	(1,580)
Other Education Grants	(4,977)	(1,947)
Other Grants	(7,340)	(4,812)
	(25,192)	(18,940)

Housing Revenue Account

Income and Expenditure Account

Restated 2005/06 £000s		2006/07 £000s	£000s
	Income		
(16,175)	Dwelling rents	(16,007)	
(330)	Non-dwelling rents	(287)	
(439)	Service charges	(372)	
(262)	Other Income	(346)	
(17,206)	**Total Income**		(17,012)
	Expenditure		
6,036	Repairs and maintenance	6,430	
5,409	Supervision and management	5,610	
8,382	Depreciation and impairment of fixed assets	8,919	
16	Increase in bad debt provision	231	
1,096	Other expenditure	1,077	
20,939	**Total Expenditure**		22,267
3,733	**Net cost of HRA services as included in the whole authority I&E account**		5,255
190	HRA services share of Corporate and Democratic Core		129
-	HRA share of other amounts included in the whole authority Net Cost of services but not allocated to specific services		(100)
3,923	**Net Cost of HRA Services**		5,284
(7,340)	(Gain) or loss on sale of HRA fixed assets		(3,109)
78	Interest payable and similar charges		480
-	Interest and investment income		(137)
46	Pensions interest cost and expected return on pensions assets.		(49)
(3,293)	**(Surplus) or deficit for the year on HRA services**		2,469

Housing Revenue Account

Statement of Movement on the HRA Balance

Restated 2005/06 £000s		2006/07 £000s
(3,293)	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	2,469
(940)	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	(5,434)
4,233	HRA Balance transferred to General Services	2,965
-	(Increase) or decrease in the Housing Revenue Account Balance	-
500	Housing Revenue Account surplus brought forward	500
500	Housing Revenue Account surplus carried forward	500

Note to the Statement of Movement on the HRA Balance

2005/06 £000s		2006/07 £000s	2006/07 £000s
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
(8,382)	Depreciation and impairment of fixed assets	(8,919)	
112	Government Grants Deferred amortisation	256	
7,340	Gain or loss on sale of HRA fixed assets	3,109	
(221)	Net charges made for retirement benefits in accordance with FRS 17	(126)	
(1,151)			(5,680)
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
211	Employer's contributions payable to the Lothian Pension Fund	237	
-	Loans fund principal	9	
-	Capital expenditure funded by the HRA	-	
211			246
(940)	**Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year**		(5,434)

Council Tax Account

The Council Tax Income Account shows the net income raised from the Council taxes levied under the Local Government Finance Act 1992. The tax level depends on the value of the property. Certain prescribed dwellings are exempt and discounts are given to eligible taxpayers i.e. single occupants. A Council Tax benefit scheme is available to assist taxpayers on a low income.

2005/06 £000s		2006/07 £000s
(44,531)	**Gross Charge Levied**	(46,949)
(19)	Net Cost of Council Tax Benefit	6
	Less :	
3,717	Discounts	3,882
1,090	Provision for Bad Debts	(235)
(39,743)		(43,296)
(33)	Previous years adjustments	146
(39,776)	Transfer to General Fund	(43,150)

Non-domestic Rate Income Account

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

The rates collected by all Councils in Scotland are "pooled" and then redistributed as part of the Revenue Support Grant - the main funding for Councils provided by the Government.

2005/06 £000s		2006/07 £000s
	Rates Contributable to National Pool	
(19,425)	Gross rates levied & contributions in lieu (including transitional relief)	(20,034)
4,250	Reliefs and other deductions	4,075
3	Payment of interest	4
58	Provision & Bad Debts Written Off	28
(15,114)		(15,927)
486	Previous Years Adjustments	319
(14,628)	Net Non-Domestic rates collected	(15,608)
(34,169)	Contribution from the National Non-domestic Rate Pool	(33,971)

Common Good Account

The Common Good Funds once again operated at a surplus for the year, generating significant income from letting their investment properties. Some of that income was used to maintain the assets and support events in their local communities. Due to changes in asset values, the funds reduced in value overall.

Restated 2005/06 £000s		2006/07 £000s	£000s
	Income and Expenditure Account for year		
	Expenditure		
2	Employees		2
43	Premises-related Expenditure		55
39	Supplies and Services		66
45	Third Party Payments		55
129			178
	Income		
(447)	Rents and other income	(479)	
(59)	Loan Interest	(73)	(552)
(377)	**(Surplus)/Deficit for the Year**		(374)
	Common Good Fund		
(1,427)	Balance brought forward on 1 April		(1,804)
-	Appropriation to Capital Financing Account		131
(377)	(Surplus)/Deficit for the Year		(374)
(1,804)	Fund balance as at 31 March		(2,047)
	Balance Sheet as at 31 March		
	Fixed Assets		
552	Community Assets		617
7,196	Non-operational Investment Properties		5,921
7,748			6,538
	Current Assets		
3	Sundry Debtors	3	
1,602	Short-term Loans	1,890	
1,605		1,893	
(3)	Less: Current Liabilities - Sundry Creditors	(49)	
1,602			1,844
	Long-term Liabilities		
(599)	Grants Deferred		(599)
8,751	Net Assets		7,783
	Represented By:		
(5,727)	Fixed Asset Restatement Account		(4,385)
(1,220)	Capital Financing Account		(1,351)
(1,804)	Common Good Fund		(2,047)
(8,751)			(7,783)

Trust Funds Account

The Council acts as majority or sole Trustee for 87 Charitable Trusts, Bequests and other funds, which are administered in accordance with the individual Bequest terms. In addition during 2006/07 the Brunton Theatre Trust changed to being accounted for as a Council Trust as the Council are the majority trustees.

Restated 2005/06 £000s		2006/07 Trusts £000s	2006/07 Theatre Trust £000s	2006/07 Total £000s
Income and Expenditure Account for the year				
	Income			
(105)	Investment Income	(100)	(8)	(108)
(78)	Surplus on Sale of Investments	(119)	-	(119)
-	New Bequests	(10)	-	(10)
(15)	Rents & Other Income	(39)	(1,004)	(1,043)
(198)		(268)	(1,012)	(1,280)
	Expenditure			
32	Grants & Events	305	-	305
-	Property Costs	8	242	250
-	Loan Interest	7	-	7
4	Other Costs	9	608	617
36		329	850	1,179
(162)	*(Surplus)/Deficit for Year*	61	(162)	(101)
Balance Sheet as at 31 March				
	Long-term Assets			
389	Land & Buildings	407	1,449	1,856
2,362	Investments	2,452	-	2,452
2,751		2,859	1,449	4,308
	Net Current Assets			
654	Short-term Loans	479	256	735
(3)	Less Current Assets/(Liabilities)	1	12	13
651		480	268	748
-	Government grants and other contributions deferred	-	(1,413)	(1,413)
3,402	*Net Assets*	3,339	304	3,643
	Represented By:			
(260)	Fixed Asset Restatement Account	(278)	-	(278)
(1,459)	Investments Market Revaluation Account	(1,439)	-	(1,439)
(1,683)	Accumulated Funds	(1,622)	(304)	(1,926)
(3,402)		(3,339)	(304)	(3,643)

1. Housing Revenue Account

Number and type of dwellings

	Stock at 1 April 2006	Sold in year	Adjustments in year	Bought in year	Stock at 31 March 2007
2 Apartment	1,649	6	1	5	1,649
3 Apartment	4,361	85	(4)	29	4,301
4 Apartment	2,058	48	4	29	2,043
5 Apartment	216	5	-	5	216
	8,284	144	1	68	8,209

Bad or Doubtful Debts

At the year-end, outstanding arrears totalled £1.17m (£1.19m) or 7.0% (7.0%) of the rent collectable. A provision of £0.92m (£0.73m) has been set aside in respect of uncollectable arrears.

2. Council Tax Income

Calculation of Council Tax Base

	COUNCIL TAX BAND								
	A	B	C	D	E	F	G	H	Total
Properties	1,170	9,276	13,646	4,962	5,136	3,610	3,130	511	41,441
Disabled Relief	23	79	(82)	3	7	(10)	(18)	(3)	(1)
Less :									
Exemptions	(64)	(276)	(248)	(90)	(78)	(32)	(34)	(18)	(840)
Discounts (net effect)	(208)	(1,271)	(1,301)	(470)	(356)	(207)	(152)	(26)	(3,991)
Effective Properties	921	7,808	12,015	4,405	4,709	3,361	2,926	464	36,609
Ratio to Band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	614	6,073	10,680	4,405	5,755	4,855	4,877	928	38,187
Provision for non-payment (3%)									(1,146)
Council Tax Base									37,041
Charge for Each Band	730.44	852.18	973.92	1,095.66	1,339.14	1,582.62	1,826.10	2,191.32	

3. Non-domestic rate account

Analysis of Rateable Values at 1st April 2006

	Number	Rateable Value £000
Shops, Offices and other Commercial Subjects	1,224	16,524,775
Industrial and Freight Transport	763	9,507,450
Miscellaneous (Schools etc)	1,132	19,737,736
	3,119	45,769,961

Rate Level
Occupiers of non-domestic property pay rates based on the valuation of the property within the valuation roll for East Lothian. The non-domestic rate poundage is determined by the First Minister, and was 45.3p (46.55p) per pound for properties with rateable value of £29,000 or more and 44.9p (46.1p) for those with a rateable value of less than £29,000. Additional relief was available for those with a rateable value of under £11,501.

4. Common Good Fund

There are 4 Common Good Accounts that were inherited from the former Burghs of Dunbar, Haddington, Musselburgh and North Berwick by East Lothian District Council after Local Government reorganisation in 1975. Following the 1996 Local Government reorganisation these funds transferred to East Lothian Council.

Explanation of prior period adjustments

In the 2006/07 Statement of Accounts, the Council has adopted two significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- Capital financing charges for the use of fixed assets are no longer made to revenue account
- Assets are recorded as non-operational investment properties or community assets, neither of which are subject to depreciation. This change reflects the use of Common Good assets and that the Common Good does not directly provide any services to the public.

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts (only figures that have changed are included in the table):

	Common Good Account in 2005/06 Statement of Accounts	Removal of capital charges	Reclassified Operational Assets	2005/06 comparatives in the Accounts
	£000s	£000s	£000s	£000s
Income & Expenditure Account				
Capital charges	594	(594)	-	-
Impact on Net Cost of Services	594	(594)	-	-
Asset management revenue account	(316)	316	-	-
Impact on Net Operating Expenditure	278	(278)	-	-
Capital financing account	(278)	278	-	-
Impact on Surplus for the Year	-	-	-	-
Balance Sheet				
Operational Land & Buildings	5,971	-	(5,971)	-
Non-operational Investment Properties	1,225	-	5,971	7,196
Capital Financing Account	(1,220)	-	-	(1,220)
Common Good Fund	(1,804)	-	-	(1,804)
	4,172	-	-	4,172

Fixed Assets

The value of assets changed in the following way:

	Community assets £000s	Investment Properties £000s	Total £000s
Net book value of assets at 31 March 2006	552	7,196	7,748
Movement in 2006/07			
Additions	56	75	131
Disposals	-	-	-
Revaluations	9	(1,350)	(1,341)
Depreciation	-	-	-
Impairments	-	-	-
Net book value of assets at 31 March 2007	617	5,921	6,538

Fund Analysis

The four separate funds are valued at 31 March 2007 as:

	Dunbar £'000	Hadding-ton £'000	Mussel-burgh £'000	North Berwick £'000	Total £'000
Balance brought forward on 1 April 2006	(26)	(317)	(1,391)	(70)	(1,804)
(Surplus)/Deficit for the Year	24	11	(277)	(1)	(243)
Fund balance as at 31 March 2007	(2)	(306)	(1,668)	(71)	(2,047)
Net Assets	1,034	370	6,076	303	7,783

5. Charitable Trusts

In-year Financial Performance

During the year 2006/07, the Trust Funds operated at a deficit of £61,000, which contributed towards a reduction in their overall value from £3.402m to £3.339m by 31 March 2007. The additional £2,000 of loss in value was due to an unrealised net loss in the value of the property and investment assets. The deficit was due to the use of funds held to finance community facility developments in Tranent.

Another significant development was the reclassification of the Brunton Theatre Trust as a Council Trust in 2006/07. Originally this Trust had a majority of non-Council Trustees and was accounted for as an independent Trust. However, non-Council trustees have left and have not been replaced. This meant that during the whole of 2006/07 the Theatre Trust operated as a Trust controlled by the Council, which has led to its inclusion in these accounts.

Explanation of prior period adjustments

In the 2006/07 Statement of Accounts, the Council has integrated what has previously been presented as separate revenue and capital accounts into one

Income and Expenditure Account. Any surplus or deficit on the sale of investments, which was accounted for with the Capital Account, is now one line with the Income and Expenditure Account.

Property Asset Valuation

For most Trust property assets, an independent valuer assesses the value of land and buildings every five years based on the open market value for existing use. The exception is the Theatre Trust for which we have only a depreciated historic cost valuation. As this is now a Council Trust, this will be revised to an open market value for existing use at the next valuation date.

Market Investment Valuation

Investments are valued each year by the Trusts investment managers based on the listed market value of each investment on 31 March. The largest investments held by the Trusts on 31 March 2007 were:

2005-06 £'000	Investment	2006-07 £'000
506	Investec Fund Managers International Equity Account	534
74	UK Treasury Sep07	115
93	Shell ordinary shares GB £0.25	79
76	Glaxosmithkline Ordinary Shares GB £0.25	78
106	British Petroleum Ordinary Shares US $0.25	74
87	HSBC Holdings Ordinary Shares US $0.50	70
1,420	Other stocks, shares and cash	1,502
2,362	Total	2,452

Group Income and Expenditure Account

The Council has a range of interests in related companies. Details of these are provided in Note 20 to the Core Financial Statements. Some of these companies are included within the Group Accounts.

Restated 2005/06 Total £'000		2006/07 Expend-iture £'000	2006/07 Income £'000	2006/07 Total £'000
4,219	Central Services	21,631	(18,197)	3,434
14,184	Cultural and Related Services	22,971	(7,018)	15,953
7,943	Environmental Services	10,433	(2,105)	8,328
75,121	Education Services	90,997	(16,350)	74,647
1,768	Housing Services (Non-HRA)	22,666	(20,145)	2,521
3,923	Housing Revenue Account (HRA)	22,482	(17,099)	5,383
11,037	Joint Board Requisitions	11,690	-	11,690
1,668	Planning and Development Services	3,731	(1,802)	1,929
9,291	Roads and Transport Services	14,680	(6,615)	8,065
35,385	Social Work Services	57,077	(17,646)	39,431
164,539	Gross Expenditure, Income and Net Expenditure of the Group	278,358	(106,977)	171,381
720	Share of (Surplus)/Deficit of Associates	26,997	(25,229)	1,768
165,259	Net Cost of Services	305,355	(132,206)	173,149
(9,141)	Gains on the disposal of fixed assets			(3,116)
-	Share of gains on the disposal of fixed assets of Associates			(4)
6,536	Interest payable and similar charges			8,051
231	Share of interest payable of Associates			195
(711)	Interest and investment income			(1,323)
(80)	Share of interest and investment income of Associates			(76)
188	Non-distributed Costs			(3,335)
1,296	Pensions interest cost and expected return on pensions assets			(1,626)
5,888	Share of pensions interest cost and expected return on pensions assets of Associates			6,232
169,466	Net Operating Expenditure			178,147
(39,776)	Council Tax			(43,149)
(5)	Community Charge - Arrears Collection			(11)
(88,937)	General Government Grants			(93,760)
(34,149)	Non-domestic rates reduction			(33,967)
6,599	(SURPLUS)/DEFICIT FOR THE YEAR			7,260

Reconciliation of the Council Surplus/Deficit to the Group Surplus/Deficit

Previous Year £000s		Current Year £000s
425	(Surplus)/deficit for the year on the Authority Income and Expenditure Account	(514)
-	Adjustments for transactions with other group entities	-
425	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to the Authority	(514)
	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to Group entities;	
(585)	Subsidiaries	(341)
6,759	Associates	8,115
-	Joint Ventures	-
6,599	(Surplus)/Deficit for the year on the Group Income and Expenditure Account	7,260

Group Statement of Total Recognised Gains and Losses

Previous Year £000s		Current Year £000s
6,643	(Surplus)/Deficit for the year on the Income and Expenditure Account	7,260
-	Transfer between reserves	(18)
(2,255)	(Surplus)/Deficit arising on revaluation of fixed assets	(177,284)
(368)	(Surplus)/Deficit arising on revaluation of investments	20
(1)	(Surplus)/Deficit arising on Capital Financing Account	(3)
(8,234)	Actuarial (gains) /losses on pension fund assets and liabilities	(35,097)
(4,215)	Total recognised (gains)/losses for the year	(205,122)

Group Balance Sheet

Restated 2006 £'000		2007 £'000
	Fixed Assets	
-	Intangible Fixed Assets	215
	Operational Assets	
214,417	Council Dwellings	221,418
160,357	Other Land & Buildings	343,675
4,897	Vehicles, Plant, Furniture & Equipment	5,861
39,174	Infrastructure Assets	41,598
7,581	Community Assets	8,785
	Non-Operational Assets	
19,771	Investment Properties	19,264
1,950	Assets Under Construction	9,330
967	Surplus Assets held for Disposal	967
449,114	**Total Fixed Assets**	651,113
200	Long-term investments	200
39,993	Long term debtors	40,707
5,353	Deferred Premiums on the early repayment of debt	5,116
2,362	Other Investments	2,452
497,022	**Total long-term assets**	699,588
	Current Assets	
354	Stocks & work in progress	421
7,904	Short-term Loans	32,184
18,757	Debtors & Prepayments	14,866
-	Cash & Bank	9,781
524,037	**Total Assets**	756,840
	Current Liabilities	
(2,908)	Short-Term Borrowing	(2,114)
(25,834)	Sundry Creditors	(21,802)
(1,558)	Cash & Bank	-
(30,300)		(23,916)
493,737	**Total Assets less Current Liabilities**	732,924
(116,160)	Long-Term Borrowing	(175,995)
(7,411)	Deferred Liabilities	(6,224)
(29,329)	Government Grants etc - deferred	(36,898)
(2,666)	Provisions	(1,711)
(80,390)	Liability related to defined pension benefit schemes	(52,554)
(126,332)	Investments in Associates and Joint Ventures	(122,971)
131,449		336,571
	Financed by	
(135,144)	Capital Financing Account	(130,180)
(197,082)	Fixed Asset Restatement Account	(370,493)
212,165	Pensions Reserve	181,448
-	Capital Fund	(2,941)
(1,459)	Investments Revaluation Balance	(1,439)
(751)	Insurance Fund	(926)
(500)	Housing Revenue Account balance	(500)
(8,678)	Income & Expenditure Balances	(11,540)
(131,449)		(336,571)

Group Cash Flow

This statement summarises the inflows and outflows of the Group arising from transactions with third parties for revenue and capital purposes.

Restated 2005/06 £000			2006/2007 £000
(12,093)	**Net Cash (Inflow)/Outflow from Revenue Activities**		(17,660)
(69)	**Dividends**		(86)
	Returns on Investments and Servicing of Finance		
6,396	Interest Paid	8,511	
(387)	Interest Received	(1,294)	
6,009			7,217
-	**Taxation**		-
	Capital Expenditure and Financial Investment		
42,459	Purchase of fixed assets	48,167	
463	Purchase of long-term investments	90	
(13,828)	Sale of fixed assets	(6,843)	
(9,044)	Capital grants received	(7,395)	
20,050			34,019
-	**Equity Dividends Paid**		-
-	**Acquisitions & Disposals**		-
13,897	**Net Cash Inflow before Financing**		23,490
	Management of Liquid Resources		
(1,311)	Net increase/decrease in short term loans	23,749	
	Financing		
125	Repayments of amounts borrowed	46,394	
-	New loans made	999	
(13,973)	New Loans Raised	(105,971)	(34,829)
(1,262)	Net (Increase)/Decrease in Cash		(11,339)

Notes to the Group Financial Statements

Combining Entities

Alongside its investments, East Lothian Council has an interest in a number of Associate and Subsidiary Companies. For the purposes of consolidation and incorporation within the Group Accounts recognition of these interests has been made as follows.

The under noted entities along with the relative share have been treated as associate companies within the terms of the Statement of Recommended Practice (SORP). These associate companies have been incorporated in line with the draft financial statements made available to East Lothian Council.

Organisation	Percentage Share in Associate (%)	Accounting Period
Lothian Valuation Joint Board	10.92%	Twelve months to 31/03/2007
Lothian & Borders Police Board	8.43%	Twelve months to 31/03/2007
Lothian & Borders Fire and Rescue Board	6.41%	Twelve months to 31/03/2007
SESTRANS	6.33%	Twelve months to 31/03/2007

The under noted entities, together with the percentage of shares owned, are regarded as group subsidiary companies in line with the Statement of Recommended Practice (SORP).

Organisation	Percentage Share (%)	Accounting Period
East Lothian Land	100.00%	Twelve months to 31/03/2007
Common Good Accounts	100.00%	Twelve months to 31/03/2007
Charitable Trusts	100.00%	Twelve months to 31/03/2007
Musselburgh Joint Racing Committee	100.00%	Fifteen months to 31/03/2007

The accounting period for the Musselburgh Joint Racing Committee was changed during 2006/07 from a December to a March year-end, which results in a fifteen-month accounting period. In October 2006, the Council set up the Musselburgh Racing Company Ltd with the intention of transferring the business of the Joint Racing Committee to a new company. However, this company has not been activated and the Joint Racing Committee continued to operate throughout 2006/07.

In respect of East Lothian Land there has also been a recent change of accounting period to align their financial year with that of East Lothian Council.

No subsidiaries have been excluded.

The individual accounts relating to East Lothian Land and the Musselburgh Joint Racing Committee are available from the Head of Corporate Finance, East Lothian Council, John Muir House, Haddington, EH41 3HA.

Nature of Combination

Associates

East Lothian Council is involved in the above named associates as one of the constituent authorities of these statutory Joint Boards. The share of the net assets of these associates is shown as a long-term liability on the Balance Sheet. Any share of reserves is included within the reserves of the Group. It is not considered that any goodwill exists from this interest in associate companies.
No shares are issued and the relative split of assets and reserves are in line with the Grant Aided Expenditure notified by the Scottish Executive.

Subsidiaries

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the last period of trading to 31 March 2007 show net assets of £397,000 (2006: £395,000), and a profit before taxation of £1,000 (31 March 2006: loss £19,000). The company has retained all profit. No dividend was received.

In 1994 East Lothian District Council, along with the Lothians Racing Syndicate Limited, set up the Musselburgh Joint Racing Committee. The remit of the Committee is to organise and develop horse racing at Musselburgh Links. No shares are issued. The Council nominates four of the seven Committee members with the other three nominated by the Syndicate. East Lothian Council inherited an interest in this subsidiary company as a result of local government re-organisation in 1996. A financial interest exists since the Council maybe required to bear any financial losses of the Committee. As no consideration was given for this interest, there is no goodwill arising from this interest. No dividends will be received.

The draft financial results for Musselburgh Joint Racing Committee for the year ended 31 March 2006 includes a loss of £134,000, which has been met from Committee reserves. This loss was due to the costs of the planning enquiry connected to proposed racetrack developments.

Event After the Balance Sheet Date

The Musselburgh Joint Racing Committee returned a loss for the year of £134,000, with substantial racetrack development costs (£546,000) capitalised as an asset. After the balance sheet date, these developments were refused planning permission and the Committee decided not to appeal. As a result these development costs cannot be capitalised and will be charged to the profit and loss account during 2007/08.

Financial Impact of Consolidation

The effect of inclusion of the associate and subsidiary companies on the Group Balance Sheet is to reduce Net Assets and Reserves by £110 million. This is as a result of East Lothian Council's share of the pension liabilities of the Joint Boards.

Reconciliation of Surplus to Net Revenue Cash Flow

	Total 2007
General Services Deficit/(Surplus) for Year	(856)
Net Contribution from/(to) Reserves (excl interest)	(122)
Deficit/(Surplus) on HRA	-
Interest Paid (Net)	(6,436)
Depreciation and impairment of fixed assets	(18,523)
Deferred assets written down	(27)
Government Grants Deferred Amortised	1,403
Net gains on sale of fixed assets	3,116
Net charges for retirement benefits in accordance with FRS 17	(6,493)
Employer's contributions to the Lothian Pension Fund	10,203
(Increase)/decrease in revenue long term-debtors & liabilities	682
Increase/(decrease) in stock	68
Increase/(decrease) in other current assets	(3,549)
(Increase)/decrease in revenue creditors	2,874
NET CASH (INFLOW) FROM REVENUE ACTIVITIES	(17,660)

Statement on the System of Internal Financial Control

Scope of Responsibility

East Lothian Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. East Lothian Council also has a duty under the Local Government (Scotland) Act 2003 to make arrangements to secure the continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, East Lothian Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of East Lothian Council's functions and which includes arrangements for the management of risk.

The Purpose of the System of Internal Financial Control

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of the Council's policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

The system of internal financial control is one element of the overall system of internal control and is designed to manage financial risk to a reasonable level rather than to eliminate all financial risk. It can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal financial control has been in place at East Lothian Council for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts. These controls also apply to the group subsidiaries and similar controls apply via the City of Edinburgh Council's financial arrangements for the management of our Joint Board associate interests.

The Internal Financial Control Environment

Main Features of the System

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability. The Head of Corporate Finance leads on the development and maintenance of the system although this is a responsibility for all management. In particular, the system includes:

- Comprehensive budgeting systems;
- Preparation and regular reviews of periodic and annual financial reports which indicate financial performance against the budget;
- Setting targets to measure financial and other performance;

- The preparation of regular financial reports that indicate actual expenditure against the budget and forecasts of outturn.

Role of Internal Audit and Management

The arrangements for Internal Audit are designed to ensure the provision of an independent opinion on the adequacy and effectiveness of the system of internal financial control. Internal Audit undertake an annual audit programme of work based on an annual audit plan approved by the Corporate Governance Policy and Performance Review Panel (PPRP) and operate to relevant professional standards. Of particular importance is the Annual Controls Assurance report provided to the Corporate Governance PPRP by the Internal Audit Manager.

Individual audit reports are issued directly to the Chief Executive, the relevant Chief Officer, the Head of Corporate Finance and the External Auditor. Significant matters are also reported to the Corporate Governance PPRP. Recommendations made in Internal Audit Reports are required to be implemented by management.

Other Review Processes

The Cabinet receives quarterly financial review reports, which provide a detailed overview of the Council's finances and highlight any areas of concern. Council performance issues feature as standard items on the agenda of the Corporate Management Team. The Council has four Policy and Performance Review Panels with the overall objective of providing guidance to the respective services and to monitor their performance. The Corporate Governance PPRP also operates as the Council's Audit Committee. The structure and performance of the panels themselves is subject to ongoing review.

Review of Effectiveness

East Lothian Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal financial control. This review is informed by:

- The work of managers within the Council;
- An annual declaration from all Chief Officers (with the exception this year of the former Chief Executive);
- The work of Internal Audit as described above;
- The External Auditor in their annual audit letter and other reports;
- Reports issued by other review agencies and inspectorates.

We rely upon the controls framework of the City of Edinburgh Council to manage the financial risks attached to our Joint Board associate interests. No control issues connected to the Joint Boards have been brought to my attention.

Progress is being made towards achieving the improvements included in the Statement on the System of Internal Financial Control for 2005/06, with continued effort required as follows:

- Improved business planning arrangements will be considered to enhance service's strategic management arrangements including the allocation of resources and monitoring of finances in accordance with a published Financial Strategy;
- A new project appraisal methodology will be employed to ensure asset management, option appraisal and revenue implications are assessed and undertaken on a systematic basis in line with identified priorities and a Corporate Asset Management Strategy;
- Further improvements to the regular financial review process will also be considered to enhance the quality of information and advice given to the various users of financial information;
- Further development of written procedures and workflows is required for some processes to enable financial procedures to be consistently followed. This will assist in ensuring adequate segregation of duties for key financial processes.

The need for further improvement of financial systems has been identified in 2006/07 as follows:

- The conversion to a new corporate financial system that was undertaken during the year 2005/06 represented a significant transition for the Council. This was introduced as an emergency measure to manage business continuity risks and continued effort will be required to ensure its smooth operation across all Council divisions.
- Further work is required to improve the functionality of the financial monitoring systems so that relevant business management information is as easily accessible as possible.
- Continued work is required to establish improved links between identified priorities, the budgeting process and business planning.
- Further work is required to ensure that capital projects are assessed and prioritised in accordance with a Corporate Asset Management Plan.
- The system for the recovery of sundry debts needs to be improved to ensure that all outstanding sums are paid within established timescales and as per documented procedures.
- Council-wide integration and development of Procurement policy and processes is required to ensure that the Council achieves Best Value through its work with contractors and business partners.
- Further effort is required to ensure that the Council completes the corporate risk assessments for all Divisions so that management can assess the adequacy of all key internal controls.

David Spilsbury
Head of Corporate Finance
28 June 2007

Independent auditor’s report to the members of East Lothian Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of East Lothian Council and its group for the year ended 31 March 2007 under Part VII of the Local Government (Scotland) Act 1973. These comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash-Flow Statement, Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, Council Tax Account, Non-Domestic Rate Income Account, Common Good Account, Trust Funds Account, the Group Financial Statements and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Corporate Finance and auditor

The Head of Corporate Finance’s responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2006 - A Statement of Recommended Practice (the 2006 SORP) are set out in the Statement of Responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission.

I report my opinion as to whether the financial statements present fairly the financial position of the local authority and its group in accordance with applicable laws and regulations and the 2006 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973. I also report if, in my opinion, the Foreword is not consistent with the financial statements, if the local authority has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects the authority’s compliance with the SORP. I report if, in my opinion, it does not comply with the SORP or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risk and controls. Neither am I required to form an opinion on the effectiveness of the local authority's corporate governance procedures or its risk and control procedures.

I read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Corporate Finance in the preparation of the financial statements, and of whether the accounting policies are appropriate to the local authority's and its group's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In my opinion

- The financial statements present fairly, in accordance with applicable laws and regulations and the 2006 SORP, the financial position of the local authority and its group as at 31 March 2007 and its income and expenditure for the year then ended; and

- The financial statements have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Failure to comply with a statutory requirement

It has not been necessary to qualify my opinion in respect of the following matter.

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their trading operations so that income is not less than expenditure over each three-year period. The authority failed to comply with this requirement for the three-year period ending 31 March 2007 in respect of the following significant trading operations:

- Facility Services
- Sportplus.

Mark Taylor CPFA, Assistant Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

28 September 2007