EAST LOTHIAN COUNCIL

STATEMENT OF ACCOUNTS

2011/12

CONTENTS

EXPLANATORY FOREWORD

Introduction

The Accounts for East Lothian Council are set out in the form of statements intended to present a true and fair view of the financial transactions of the Council during the year to 31 March 2012.

The accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. Over the past few years this task has been made more challenging by the requirement to produce these accounts under International Financial Reporting Standards (IFRS). Satisfying this requirement leads to a high number of 'adjusting' items designed to reconcile between the International Financial Reporting Standards and the statutory basis of local authority accounting. Although satisfying IFRS is important, I believe it is equally important to provide clarity at a local level on how taxpayers and council tax payers' money is actually spent.

The main statements contained within these annual accounts are as follows:

- **Comprehensive Income and Expenditure Statement** (Page 9) – this outlines the financial performance of the Council during the 2011/12 financial year which ran from 1 April 2011 to 31 March 2012.

- **Balance Sheet** (Page 10) – this details the net worth of the Council at 31 March 2012 after taking into account the performance for the year shown in the Comprehensive Income and Expenditure Statement.

- **Movement in Reserves Statement** (Page 12-13) – this shows the movement in the year on the different reserves held by the Council. Most importantly it splits the reserves between 'Usable' and 'Unusable'. The 'Usable' are those which the Council can call upon either to help fund services or to balance future budgets. The 'Unusable' reserves are generally held for accounting purposes.

- **Cash Flow Statement** (Page 11) – this provides another way of looking at the performance for the year removing the accrual of income and expenditure and showing how the cash in and out of the Council during the year affected the opening and closing cash position.

In addition to these main statements we have provided further supporting information through the notes, supplementary statements and group statements.

The results for the year

The most significant figure that emerges from the Comprehensive Income and Expenditure Statement is the 'bottom line' deficit figure of £15.5 million.

It is important to realise that this figure has arisen under the IFRS rules and also how it differs from the 'statutory' position – which is the way we typically monitor and report the Council's financial performance. Although the Council may feel less well off, this deficit does not affect the council tax level. These are accounting adjustments made to ensure our accounts are in line with IFRS and are not taken into account when we set the council tax for the year.

At this point it is worth considering the results and prospects for the General Services and Housing Revenue Accounts separately. This is because the results and the prospects for both accounts are quite different.

In the case of the Housing Revenue Account, the use of reserves totalling £3.4 million was planned during the year and relates almost entirely to the planned purchase of new homes under the Council's Open Market Acquisition scheme. Looking forward into 2012/13 the Housing Revenue Account remains healthy and has adequate reserves of £6.7 million which will be used as part of the ongoing Modernisation and Affordable Homes capital programmes.

In the case of General Services the use of reserves during the year was £4.2 million and is particularly significant, because it is the first time in recent memory that this Council has ended the year with a revenue deficit. It also means that in one year, the Council has used more than 23% of its available reserves.

At the time of setting its 2011/12 budget the Council estimated that it would use almost £5.5 million of general fund reserves to balance income and expenditure. The actual result is therefore slightly better than originally planned – but is in line with updated expectations when setting the 2012/13 budget in February 2012. The results for each department at the year-end are detailed below.

Description	**Budget 11/12 (£000s)**	**Actual 2011/12 (£000s)**	**Variance (£000s)**
Education & Children's Services	288,058	287,520	(538)
Community Services	107,252	106,760	(492)
Chief Executive's Office	3,344	4,101	757
Environment	25,920	25,972	52
Corporate Resources	1,924	1,632	(292)
Corporate Management	(421,238)	(421,726)	(488)
Other Movements	-	(149)	(149)
Decrease in Usable Reserves	**5,260**	**4,110**	**(1,150)**

At the end of last year the Council had Property, Plant and Equipment (PPE) assets valued at approximately £785 million. As part of preparing an accurate set of accounts we aim have to have the majority of these assets valued every five years. During 2011/12 a revaluation was carried out for most of our 'operational' assets – these are generally those assets which are used to support direct service provision e.g. schools and community centres. The last time a revaluation of these assets was carried out was in 2006 – during the height of the property boom.

As a result of the 2011/12 valuation, we have found that the value of the land has generally fallen but that the value of the buildings has increased. Given the scale of this change it is likely that this occurred soon after the property crash and reflecting upon this and the date of the valuation report, we have adjusted prior period accounts to the value of £96 million. More details of this is contained at Note 37.

Looking ahead, it is clear that the Council, along with all other public bodies, is facing some significant financial challenges. Moving forward into 2012/13 the Council is holding almost £14.7 million of General Services reserves. In accordance with the Council's Financial Strategy, these will need to be used carefully and effectively to help manage the process of change that will be necessary to reduce our costs in line with the reduction in income.

Trading Operations

Under Best Value legislation the Council has to identify and separately account for Significant Trading Operations (STOs). Unlike other Council services, each of the trading operations has the statutory financial target of breaking even over a cumulative three-year period. This is seen as an important indicator of whether Best Value has been achieved in these services.

During 2011/12 all the established STOs i.e. Facility Services, Property Maintenance and Roads Services, Care Homes and Domiciliary Care Services all met the statutory financial target.

Pensions

At the end of 2011/12, the Council's pension assets have been measured at £297.6 million – while the liabilities it is due to pay to current and future pensioners have been measured as £391.7 million. This means the net pension liability is approximately £94.1 million at 31 March 2012 which is a deterioration in the position since last year when the liability stood at £79.9 million. The change in the year is mainly due to changes in financial assumptions about future inflation rates plus less favourable investment returns.

Despite this increase in the reported position of the pension liability, the underlying position is relatively unchanged. Typically, pension funds do not currently have all the assets required to meet all future liabilities and public bodies will have to find ways to remedy this over the long term timescales involved.

In the long-term, the liability will continue to be measured and monitored. The cash contributions the Council makes to the Pension Fund is reviewed as part of an assessment made by an independent actuary every 3 years. The next independent valuation is due at 31 March 2014.

Capital Investment Plans

In 2011/12, we invested £71.5 million in assets that support service delivery within East Lothian, which is a 25% increase on the previous year (£56.8 million). The past few years have seen significant capital investment across the county. The significant projects, either started or completed, this year include;

- A new Joint Campus primary school in Haddington;
- Refurbishment work on the Brunton Hall;
- A new community centre and a new primary school in Dunbar; and
- Refurbishment of buildings in the centre of Haddington to create a new museum, library and document storage.

It also included new council homes, the numbers of which increased by 176 over the year.

We usually finance capital investment by using long-term borrowing, although recent investment in our 6 secondary schools has been delivered through a Public Private Partnership (PPP). During 2011/12 our borrowing increased to £292.5 (2010/11: £253.6 million) to finance capital expenditure for the year. It is important to note that all borrowing is financed from income – either government grants, council tax or developer contributions.

The overall tightening of the public finances over the coming years has meant that all councils have had to look at future investment - and its affordability. The likelihood is that, across the majority of categories, though not council housing, we are likely to see a reduction in capital spending over the next few years. Future projects are only likely to proceed if they are either supported by grant funding from other sources or if they prove to be self-financing.

Council housing is a growing element of overall capital expenditure and debt. The main difference in relation to council housing is that the borrowing is directly repayable from the rents charged to council house tenants. Over the coming years the proposed housing capital programme is affordable because of planned increases in rents.

Currently, the average East Lothian council rent is well below the national average. In order to fund the substantial new build and refurbishment programme, the East Lothian average rent will increase over time towards the Scottish average.

The Year in Summary

2011/12 has been a financially significant year for the Council in a number of ways. Although it has managed to successfully cope with immediate and significant expenditure pressures it has had to draw from its reserves for the first time. The recovery in the national public finances now looks like it will be slower than first hoped and our reserves will be required to give East Lothian Council the time and the flexibility to respond to the financial challenges that lie await.

The 2011/12 financial year also saw significant investment in capital projects. It is likely that 2011/12 will probably be the 'peak' year in terms of capital expenditure as the planned programme is forecast to decrease over the next three years.

The Council operates in an increasingly dynamic and challenging operating environment with both internal and external influences, many of which are beyond our direct control. What is however critical is that the Council responds to these in an appropriate and effective manner. During 2011/12 under the leadership of a new Chief Executive, the Council has carried out and implemented a major review of senior management and organisational structures and has also developed a new strategic 5 year Council Plan. Following the Local Government Elections in May 2012, a change in political administration has taken place and an updated Council Plan has been approved.

The Council continues to face stiff financial challenges and fully anticipates that it will require to make further tough choices in the coming years. The projected loss in central government funding forecast by independent analysts, combined with the anticipated freeze in Council Tax, will almost certainly require a reduction in both revenue and capital budgets and a more stringent downward management of costs.

Acknowledgement

I wish to record my thanks to staff in all departments for their support and co-operation in producing the Annual Accounts in accordance with the statutory timescale. In particular the effort and commitment of my own Finance Team are gratefully appreciated.

Jim Lamond (CPFA)
Head of Council Resources
27 September 2012

Statement of Responsibilities for the Statement of Accounts

The Council's responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Council Resources, 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 Council'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 present a true and fair view of the financial position of the Council at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Jim Lamond (CPFA)
Head of Council Resources
27 September 2012

The core financial statements comprise the following:

Comprehensive Income and Expenditure Statement

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

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council are matched by the reserves held by the Council. Reserves are reported in two categories. The first category of reserves are usable reserves i.e. those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves are those that the Council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses where amounts would only become available to provide services if the assets are sold. It also includes reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'

Cash Flow Statement

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

Movement in Reserves Statement

This statement shows the movement in the year on the different reserves held by the Council, analysed between usable reserves i.e. those that can be applied to fund expenditure or reduce local taxation and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Council's services as defined by IFRS, more details of which are shown on the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for council tax setting and dwelling rent setting purposes. The Net Increase or Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance and the Housing Revenue Account Balance before any discretionary transfers to or from earmarked reserves undertaken by the Council.

Comprehensive Income and Expenditure Statement

2010/2011 Gross Expenditure £000s	2010/2011 Gross Income £000s	2010/2011 Net Expenditure £000s		2011/2012 Gross Expenditure £000s	2011/2012 Gross Income £000s	2011/2012 Net Expenditure £000s
17,843	(13,530)	4,313	Central services	8,228	(4,504)	3,724
21,097	(1,568)	19,529	Cultural and related services	26,364	(3,007)	23,357
102,922	(11,156)	91,766	Education services	98,181	(4,787)	93,394
12,229	(1,073)	11,156	Environmental services	14,916	(1,175)	13,741
31,670	(28,042)	3,628	Housing services (non-HRA)	33,126	(28,524)	4,602
11,159	(340)	10,819	Joint Board requisitions	10,535	(354)	10,181
22,811	(19,433)	3,378	Local authority housing (HRA)	24,446	(20,431)	4,015
4,586	(1,604)	2,982	Planning and development services	4,822	(2,576)	2,246
21,838	(9,150)	12,688	Roads and transport services	13,216	(875)	12,341
71,596	(13,736)	57,860	Social Work services	69,322	(8,503)	60,819
2,006	-	2,006	Corporate and democratic core	2,846	(93)	2,753
-	-	-	Non-distributed costs	272	-	272
319,757	**(99,632)**	**220,125**	**Cost of Services**	**306,274**	**(74,829)**	**231,445**
		(1,141)	(Gains)/Losses on the disposal of non current assets			(9)
		(25,275)	Financing and investment income and expenditure (Note 6)			13,790
		(227,622)	Taxation and non specific grant income (Note 7)			(232,318)
		(33,913)	**(Surplus) or Deficit on Provision of Services**			12,908
		(6,469)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(14,262)
		(1,180)	(Surplus) or deficit on revaluation of available for sale financial instruments			(661)
		(22,477)	Actuarial (Gains)/Losses on pension assets/liabilities			17,524
		(30,126)	**Other Comprehensive Income and Expenditure**			**2,601**
		(64,039)	**Total Comprehensive Income and Expenditure**			**15,509**

Balance Sheet as at 31 March 2012

31 March 2010 Restated £000s	31 March 2011 Restated £000s		Notes	31 March 2012 £000s
656,972	688,204	Property, Plant & Equipment	13	731,152
-	-	Heritage Assets	15	547
1,135	2,314	Long Term Investments	21a	2,976
2,390	4,623	Long Term Debtors	21b	7,305
660,497	**695,141**	**Long Term Assets**		**741,980**
-	47	Short Term Investments		47
519	986	Assets Held for Sale	16	1,145
432	496	Inventories		342
30,613	31,593	Short Term Debtors	22	36,173
(17,447)	(18,209)	Bad & Doubtful Debt Provision	22	(18,481)
455	13,072	Cash and Cash Equivalents		-
14,572	**27,985**	**Current Assets**		**19,226**
-	-	Bank Overdrafts	-	(4,716)
(3,730)	(14,937)	Short Term Borrowing	23	(16,580)
(22,072)	(23,944)	Short Term Creditors	24	(23,793)
(25,802)	**(38,881)**	**Current Liabilities**		**(45,089)**
(7,142)	(7,381)	Provisions	25	(5,680)
(203,222)	(238,718)	Long Term Borrowing	23	(275,926)
(197,110)	(131,664)	Other Long Term Liabilities	26	(144,038)
-	(650)	Capital Grants Receipts in Advance	33	(150)
(407,474)	**(378,413)**	**Long Term Liabilities**		**(425,794)**
241,793	**305,832**	**Net Assets**		**290,323**
(23,068)	(28,997)	Usable Reserves	29	(21,478)
(218,725)	(276,835)	Unusable Reserves	30	(268,845)
(241,793)	**(305,832)**	**Total Reserves**		**(290,323)**

The unaudited accounts were issued on 26 June 2012 and the audited accounts were authorised for issue on 27 September 2012.

Jim Lamond (CPFA)
Head of Council Resources
27 September 2012

Cash Flow Statement

2010/11 £000s		2011/12 £000s
(33,913)	Net (surplus) or deficit on the provision of services	12,908
7,685	Adjustments to net surplus or deficit on the provison of services for non-cash movements (Note 34)	(31,313)
12,370	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities (Note 35)	14,034
(13,858)	Net Cash flow from Operating Activities	(4,371)
	Investing Activities	
56,169	Purchase of property, plant and equipment	71,246
(69)	Dividends from joint ventures and associates	(103)
(543)	Proceeds from short term investments	(327)
(9,436)	Other receipts from investing activities	(12,726)
(2,865)	Proceeds from the sale of property, plant and equipment	(1,174)
43,256	Net cash flows from investing activities	56,916
	Financing Activities	
(55,328)	Cash receipts of short and long term borrowing	(77,342)
1,380	Cash payments for the reduction of the outstanding liability relating to finance lease and on-Balance Sheet PFI contracts	1,280
9,523	Repayments of short and long term borrowing	38,328
2,410	New loans made	2,977
(42,015)	Net cash flow from financing activities	(34,757)
(12,617)	Net (Increase) or decrease in cash and cash	17,788
(455)	Cash and cash equivalents at the beginning of the reporting period	(13,072)
(13,072)	Cash and cash equivalents at the end of the reporting period	4,716

MOVEMENT IN RESERVES STATEMENT

For the year ended 31 March 2012	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Housing Capital Fund (£000)	**Total Usable Reserves (£000)**	**Unusable Reserves (£000) Restated**	**Total Authority Reserves (£000)**
Balance at 31 March 2011 carried forward (as restated)	**(17,849)**	**(4,743)**	-	**(1,006)**	**(5,399)**	**(28,997)**	**(276,835)**	**(305,832)**
Movement in reserves during 2011/12								
(Surplus) or deficit on provision of services	8,475	4,433	-	-	-	**12,908**	-	12,908
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	2,601	2,601
Total Comprehensive Expenditure and Income	**8,475**	**4,433**	-	-	-	**12,908**	**2,601**	**15,509**
Adjustments between accounting basis & funding basis under regulations (Note 5)	(4,023)	(192)	(95)	-	(1,079)	(5,389)	5,389	-
Net (Increase)/Decrease before Transfers to Other Statutory Reserves (as restated)	**4,452**	**4,241**	**(95)**	-	**(1,079)**	**7,519**	**7,990**	**15,509**
Housing Revenue Account	(247)	247	-	-		-	-	
Capital Fund	-	(2,493)	-		2,493	-	-	
Insurance Fund	(33)			33		-	-	
(Increase)/Decrease in Year (as restated)	**4,172**	**1,995**	**(95)**	**33**	**1,414**	**7,519**	**7,990**	**15,509**
Balance at 31 March 2012 carried forward (as restated)	**(13,677)**	**(2,748)**	**(95)**	**(973)**	**(3,985)**	**(21,478)**	**(268,845)**	**(290,323)**

For the year ended 31 March 2011	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Housing Capital Fund (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000) Restated	Total Authority Reserves (£000)
Balance at 31 March 2010	(10,529)	(3,570)	(4,940)	(1,088)	(2,941)	(23,068)	(315,498)	(338,566)
Prior Year Adjustments (Note 37)						-	96,773	96,773
Balance at 31 March 2010 (as restated)	(10,529)	(3,570)	(4,940)	(1,088)	(2,941)	(23,068)	(218,725)	(241,793)
Movement in reserves during 2010/11								
(Surplus) or deficit on provision of services	(33,829)	(84)	-	-	-	(33,913)	-	(33,913)
Other Comprehensive Expenditure and Income	-	-	-	-	-	-	(30,126)	(30,126)
Total Comprehensive Expenditure and Income	(33,829)	(84)	-	-	-	(33,913)	(30,126)	(64,039)
Adjustments between accounting basis & funding basis under regulations (Note 5)	31,332	(483)	(2,865)	-	-	27,984	(27,984) -	-
	-	-	-	-	-	-	-	
Net Increase/Decrease before Transfers to Other Statutory Reserves	(2,497)	(567)	(2,865)	-	-	(5,929)	(58,110)	(64,039)
Housing Revenue Account	(494)	494	-	-	-	-	-	-
Capital Fund	(4,247)	(1,100)	7,805	-	(2,458)	-	-	
Insurance Fund	(82)	-	-	82	-	-	-	-
(Increase)/Decrease in Year	(7,320)	(1,173)	4,940	82	(2,458)	(5,929)	(58,110)	(64,039)
Balance at 31 March 2011 carried forward	(17,849)	(4,743)	-	(1,006)	(5,399)	(28,997)	(276,835) -	(305,832)

NOTES TO THE ACCOUNTS

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Council's transactions for the 2011/12 financial year and its position at the year-end of 31 March 2012. The Council is required to prepare an annual Statement of Accounts under the Local Authority Accounts (Scotland) Regulations 1985. These accounts must be prepared in accordance with proper accounting practice. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 and the Service Reporting Code of Practice (SeRCOP) 2011/12 supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the Local Government in Scotland Act (2003).

The accounting convention adopted is historical cost, modified by the revaluation of certain categories of non-current assets.

ii. 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:

- Revenues from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.

- Revenues from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefit or service potential associated with the transaction will flow to the Council.

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.

- Interest receivable on investments and payable on borrowings is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure have 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.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

iv. Exceptional Items

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

v. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

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

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

vi. Charges to Revenue for Non Current Assets

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

- Depreciation attributable to the assets used by the relevant service

- Revaluation/impairment losses attributable to the clear consumption of economic benefits on non-current assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off

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

vii. Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits e.g. cars. These are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made at the wage and salary rate applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

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

Post Employment Benefits

Employees of the 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 the Lothian Pension Fund operated by the City of Edinburgh Council.

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

However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified to the Council. The scheme is therefore accounted for as if it were a defined 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 projected earnings of 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 – bid price
- 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 a result of the years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement 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 Comprehensive Income and Expenditure Statement

- 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 Comprehensive Income and Expenditure Statement

- 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 Comprehensive Income and Expenditure Statement 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 are charged to Reserves

- Contributions paid to the Lothian Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities not accounted for as an expense.

Statutory provisions limit the Council to raising Council Tax to cover the amounts payable by the Council to the Pension Fund in the year. Within the Movement in Reserves Statement 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. The negative balance that arises on the Pension Reserve thereby measures the impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Teachers' Pension Scheme.

viii. Events after the Balance Sheet Date

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of event can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

ix. Financial Liabilities

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

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

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

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

x. Financial Assets

Financial assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available-for-sale financial assets – shares that have no quoted market price and do not have fixed or determinable payments.

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost.

Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

If assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to either the relevant service for receivables specific to that service or to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original interest rate.

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

Available for Sale Financial Assets

Unquoted equity investment assets are initially measured and carried at fair value. As the investment is unquoted, the annual revaluation is made based on the net book value of the company. There are no fixed or determinable payments, so any income (e.g. dividends) is credited to the Financing and

Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement when it becomes receivable by the Council.

If assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Comprehensive Income and Expenditure Statement.

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

xi. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is a reasonable assurance that the Council will comply with the conditions attached to the payments and grants or contributions will be received.

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

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

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

xii. Heritage Assets

The aim of the Council's museums service is to preserve and present the Council's Cultural & Heritage assets and to enable communities and individuals to engage with these assets as a resource for enjoyment, education and information. Heritage assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on Property, Plant and Equipment (PPE). However, some of the measurement rules are relaxed in relation to heritage assets as detailed below.

Paintings

The Council's collection of oil paintings is reported in the Balance Sheet at insurance valuation which is based on market values. Valuations are obtained every five years. The collection of paintings is deemed to have indeterminate lives and a high residual value: hence the Council does not consider it appropriate to charge depreciation.

There is a significant collection of paintings by the artist William Stuart MacGeorge, as well as other fine examples of local artists such as W D Mackay, William Marshall Brown, Sir William Geddes and John Bellany.

Civic Regalia and Coins

There are 8 main pieces of civic regalia which are included in the Council's Balance Sheet; Haddington Provost chains of office, Haddington Silver Rose Bowl, Burgh of Dunbar chains of office, Cockenzie and Port Seton chains of office, Musselburgh Town Council chains of office, Musselburgh Silver Rose Bowl and Musselburgh Corporate Golf Medal.

There is a small miscellaneous collection of Scottish and British coins, some trade tokens and commemorative medals. In addition there is a significant collection of local communion tokens. There is also some material relating to the failed East Lothian Bank.

The civic regalia and coins will be valued in 2012/13 and at five yearly intervals thereafter. The amounts are not considered to be material. As the collection of civic regalia and coins are likely to have indeterminate lives and high residual values it is unlikely that the Council will consider it appropriate to charge depreciation.

Ceramics and Flags/Banners

During 2013/14 the Council's collection of ceramics and flags will be valued and at five yearly intervals thereafter. Belfield and Macmerry pottery is represented in the ceramics collection as well as non-local items. Within the banner collection are a Haddington Weavers Flag, an Electoral Reform Banner and a Friendly Society Banner. The amounts involved are not considered to be material. As the collection of ceramics and flags/banners are likely to have indeterminate lives and high residual values it is unlikely that the Council will consider it appropriate to charge depreciation.

General

The remainder of the Council's collection relates to generic social history, which is believed to be of little value. All the collections are relatively static and acquisitions and donations are rare. Where they do occur they are initially recognised at cost.

The carrying amounts of heritage assets are reviewed where there is evidence of impairment for heritage assets, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

Any disposal proceeds would be disclosed separately in the Notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

xiii. 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 at fair value, less any provision for losses.

xiv. Inventories and Long Term Contracts

Inventories are included in the Balance Sheet at a value based on latest purchase price. The difference between this practice and that recommended has no significant or material effect on the financial statements.

xv. Leases

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

The Council as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised in the Balance Sheet at the commencement of the lease at its fair value measured at the lease inception or the present value of the minimum lease payments if lower. The asset recognised is matched by a liability for the obligation to pay the lessor. Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability; and
- A finance charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

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

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant and equipment.

The Council as Lessor

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant service line in the Comprehensive Income and Expenditure Statement as it is payable.

xvii. 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 Service Reporting Code of Practice (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation

- Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement as part of Net Cost of Services.

xviii. Property, Plant and Equipment

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

Recognition

Expenditure of over £6,000 on the acquisition, creation or enhancement of any Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential is charged as an expenses when it is incurred.

Measurement

Assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

- Infrastructure assets and community assets – depreciated historical cost.
- Council Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- Other Land & Buildings – fair value, determined as the amount that would be paid for the asset in existing use (Existing Use Value – EUV)
- Vehicles, Plant, Furniture and Equipment – depreciated historical cost.

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

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

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

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the amount of the accumulated gains

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

Impairment

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

Where impairment is identified as part of this review or as a result of a valuation exercise, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance up to the amount of the accumulated gain.

- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

Depreciation

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

Deprecation is calculated on the following bases:

- Dwellings and Other Land and 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

- Community assets – straight-line allocation over the life of the asset as advised by a suitably qualified officer.

The estimated useful lives are as follows.

Council Dwellings	10-50 years
Other Land and Buildings	5-60 years
Vehicles, Plant, Furniture & Equipment	5-15 years
Infrastructure	5-25 years
Community Assets	10-40 years

Assets under Construction are not depreciated.

Where an item of Property, Plant and Equipment asset has major components, whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-current Assets held for Sale

When it becomes probable that the carrying value of an asset will be recovered principally through a sale transaction rather than its continuing use, it is reclassified as an asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

Where an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Gains/Losses on the disposal of non-current assets line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to Gains/Losses on the disposal of non-current assets line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts in excess of £10,000 are categorised as capital receipts and are credited to the Capital Receipts Reserve. They can then be used for new capital investment or to meet the cost of debt repayments. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

ixx. Private Finance Initiative (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the non-current assets needed to provide the services passes to the Private Finance Initiative (PFI) contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the non-current assets will pass to the Council at the end of the contract for no additional charge, the Council carries the non-current assets used under the contracts on the Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value based on the cost to purchase the property, plant and equipment was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment towards liability – applied to write down the Balance Sheet liability to the PFI operator.
- Lifecycle replacement costs – a proportion of the amount payable to the PFI operator is posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

xx. Provisions and Contingent Liabilities

Provisions

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

Provisions are charged to the appropriate service revenue account in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision 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.

Contingent Liabilities

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

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

xxi. Reserves

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement.

When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to score against the Net Cost of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the

Movement in Reserves statement so that there is no net charge against Council Tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non – current assets and retirement benefits and they do not represent usable resources for the Council – these reserves are explained in the relevant policies below.

xxii. VAT

VAT is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue & Customs. VAT receivable is excluded from income.

2. Accounting Standards that have been issued but have not yet been adopted

IFRS 7 Financial Instruments: Disclosures (Transfers of Financial Assets) will be applied for the 2012/13 accounts. This standard introduces new requirements to improve the information on financial instruments that is given in the financial instruments. This is purely a disclosure standard and the extent of disclosure will depend upon the organisation's use of financial instruments and of its exposure to risk.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- The inclusion of the PFI contract for the refurbishment and facilities management of the six secondary schools as a finance lease within the Council's accounts. The accounting policies for PFI schemes have been applied to the arrangement and the asset and liability associated with this have been recognised on the Council's Balance Sheet as the Council considers that it has the majority of the risks and rewards of ownership.

- There is a degree of uncertainty about future levels of funding for local government in Scotland. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to reorganise services.

4. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming year are as follows;

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Pensions Liability	The calculation of the net liability to pay pensions depends on a number of complex judgements including the discount rate chosen, the rate of salary increase and mortality rates. The actual figure has proved to be variable over time and this has been referred to in the Explanatory Foreword.	If actual results are different from assumptions there is the potential for a significant change – either increasing or decreasing the potential liability.
Property, Plant and Equipment	Assets are valued and depreciated over their useful lives in line with advice taken from external and internal valuers. The majority of the Council's property assets have been revalued during 2010/11 and 2011/12. Housing assets are due to be revalued within the next two years and there is some potential that there are significant changes in the carrying value.	If there is a significant reduction in value then the carrying amount of the asset on the Balance Sheet would fall.
Debtors	At 31 March 2012 the Council had balances of £8.6 million relating to Council Tax debt and £2.26 million relating to Council House rent debt. The Council believes it has provided for the potential of doubtful debts. However, it is possible that future economic conditions could have a detrimental impact on collection rates.	If collection rates were to deteriorate then there would be a deterioration in cash inflows and the potential that income would not be realisable.

5. Adjustments between Accounting Basis and Funding Basis under Regulations.

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

	General Fund Balance (£000)	Housing Revenue Account (£000)	Capital Receipts Reserve (£000)	Insurance Fund (£000)	Capital Fund (£000)	**Movement in Usable Reserves (£000)**
2011/2012						
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(18,074)	(8,638)	-	-	-	**(26,712)**
Impairment and revaluation losses (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(14,234)	-	-	-	-	**(14,234)**
Capital grant and contributions applied	13,324	2,370	-	-	-	**15,694**
Differences re finance leases,stepped loans, premiums and discounts	421	-	-	-	-	**421**
Profit/loss on sale of non-current assets	(418)	427	(95)	-	(1,079)	**(1,165)**
Statutory Provision relating to PPP	1,278	-	-	-	-	**1,278**
Net retirement benefits per IAS19	(10,613)	(25)	-	-	-	**(10,638)**
Employee - Statutory Adjustments	2,161	-	-	-	-	**2,161**
Loans Fund principal repayments and statutory premia	7,402	1,414	-	-	-	**8,816**
Employer's contributions payable to the Lothian Pension Fund	13,798	254	-	-	-	**14,052**
Capital expenditure charged against the General Fund and HRA balances	932	4,006	-	-	-	**4,938**
Total Adjustments	(4,023)	(192)	(95)	-	(1,079)	**(5,389)**
2010/2011						
Depreciation (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(16,205)	(8,246)	-	-	-	**(24,451)**
Impairment and revaluation losses (charged to the Surplus or Deficit on the Provision of Services) of non-current assets	(5,409)	-	-	-	-	**(5,409)**
Capital grant and contributions applied	5,145	3,868	-	-	-	**9,013**
Differences re finance leases,stepped loans, premiums and discounts	295	-	-	-	-	**295**
Profit/loss on sale of non-current assets	(27)	1,169	(2,865)	-	-	**(1,723)**
Statutory Provision relating to PPP	1,378	-	-	-	-	**1,378**
Net retirement benefits per IAS19 (FRS17)	25,030	1,194	-	-	-	**26,224**
Employee - Statutory Adjustments	250	-	-	-	-	**250**
Loans Fund principal repayments and statutory premia	6,589	1,100	-	-	-	**7,689**
Employer's contributions payable to the Lothian Pension Fund	13,718	432	-	-	-	**14,150**
Capital expenditure charged against the General Fund and HRA balances	568	-	-	-	-	**568**
Total Adjustments	31,332	(483)	(2,865)	-	-	**27,984**

6. Financing and Investment Income and Expenditure

2010/11 £000s		2011/12 £000s
14,080	Interest payable & similar charges	14,865
(39,100)	Pensions interest cost & expected return on pension assets	(264)
(255)	Interest receivable & similar income	(811)
(25,275)	Total	13,790

7. Taxation and Non Specific Grant Income

2010/11 £000s		2011/12 £000s
(46,045)	Council Tax	(45,941)
(38,455)	Non domestic rates	(19,319)
(134,110)	Non ringfenced government grants	(151,365)
(9,012)	Capital grants and contributions	(15,693)
(227,622)	Total	(232,318)

8. Trading Operations

During 2011/12 the Council had 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 Council or other organisations. Each operation is obliged under statute to achieve break-even over a rolling three-year period.

At its August 2012 meeting the Council approved the cessation of the Older People Care Homes and Domiciliary Care Services trading activities with effect from April 2012.

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 surplus of £1.2 million.

	2011/12 £000s	2010/11 £000s	2009/10 £000s
Turnover	9,587	8,109	7,941
Surplus/(Deficit)	48	546	645
3-year Cumulative Surplus/(Deficit)	1,239		

Property Maintenance

Property Maintenance provides property maintenance services. The majority of work is undertaken on the Council's housing stock – including an increasing amount of work on housing improvements. This trading operation has now been operating for five years. The cumulative position over the last three years is now a surplus of £1.65 million.

	2011/12 £000s	2010/11 £000s	2009/10 £000s
Turnover	10,401	9,694	9,722
Surplus/(Deficit)	697	407	543
3-year Cumulative Surplus/(Deficit)	1,647		

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 as well as some capital work. Over the three-year period the service has a cumulative surplus of £1.86 million and has met the statutory target.

	2011/12 £000s	2010/11 £000s	2009/10 £000s
Turnover	6,912	8,666	8,056
Surplus/(Deficit)	187	469	1,201
3-year Cumulative Surplus/(Deficit)	1,857		

Older People Care Home Services

Older People Care Home Services trading activities commenced in April 2009. Care Home provision is split between residential and nursing care and this activity provides 5 homes. During 2011/12 a surplus of £80, 000 was made.

	2011/12 £000s	2010/11 £000s	2009/10 £000s
Turnover	6,035	5,480	5,096
Surplus/(Deficit)	80	80	(98)
3-year Cumulative Surplus/(Deficit)	62		

Domiciliary Care Services

This activity commenced in April 2009, and aims to support older people to live independently in their own homes as long as possible. During 2011/12 a surplus of £248,000 was made.

	2011/12 £000s	2010/11 £000s	2009/10 £000s
Turnover	3,710	3,670	3,479
Surplus/(Deficit)	248	20	(194)
3-year Cumulative Surplus/(Deficit)	74		

9. Agency income and expenditure

The Council provides an agency service to Scottish Water. Associated income and expenditure is not included within the Council Comprehensive Income and Expenditure Statement. In 2011/12 £14.8m (2010/11: £14.8m) was paid over to Scottish Water.

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

10. 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

Central government – which includes the UK and Scottish governments - has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits).

Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2011/12 is shown in the Remuneration Report. During 2011/12, no works and services were commissioned from companies in which members had an interest.

Entities Controlled or Significantly Influenced by the Council

Entity	Nature of Related Party Relationship	Payments in the year (£000s)	Nature of transactions (£000s)	Position at year-end Debtor Balances (£000s)	Creditor Balances (£000s)
Enjoy East Lothian Limited	Associate Company	2,728	Provision of leisure services	77	-
East Lothian Investments	Associate Company	90	For economic development purposes	335	(40)
Brunton Theatre Trust	Associate Company	481	Provision of arts services	-	(210)
Common Goods	Subsidiary Company	-	-	-	(1,202)
Musselburgh Joint Racing Committee	Subsidiary Company	-	-	-	(581)
Trust Funds	Subsidiary Company	-	-	-	(888)
Joint Boards	Associate Company	10,535	Fire, Police and Valuation Board	-	-

11. Audit costs

KPMG have been appointed as the Council's auditor by the Accounts Commission and a fee of £0.26m (2010/11: £0.27m) has been requested from the Council.

During the 2011/12 year the Council also paid £32,000 to KPMG for work they carried out in managing a VAT reclaim.

12. Amounts reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice (SeRCOP). However, decisions about resource allocation are taken by the Council on the basis of budget reports analysed across Departments. The income and expenditure of the Council's Departments recorded in the budget reports for the year is as follows.

2011/2012	Chief Executive's Office	Community Services	Corporate Resources	Education & Children's Services	Environment	Corporate Activities	Total
Departmental Income & Expenditure	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Income							
Fees, charges and other service income	(1,669)	(64,919)	(14,021)	(53,909)	(17,120)	(525)	(152,163)
Grants and contributions	(175)	(11,651)	(711)	(1,949)	(1,117)	(207,926)	(223,529)
Interest and investment income	-	(370)	(20)	-	(103)	(318)	(811)
Income from council tax	-	-	-	-	-	(45,941)	(45,941)
(Gains) on the disposal of non-current assets	-	(427)	-	-	-	418	(9)
	(1,844)	(77,367)	(14,752)	(55,858)	(18,340)	(254,292)	(422,453)
Expenditure							
Employee Expenses	2,410	45,653	10,489	59,585	11,365	8	129,510
Other service expenses	1,527	79,752	2,824	25,832	19,323	11,482	140,740
Transfer Payments	-	909	-	756	-	23,574	25,239
Support service recharges	1,257	15,229	2,846	60,061	4,521	147	84,061
Depreciation, amortisation and impairment	7	18,938	2,108	11,464	8,380	49	40,946
Interest payments	-	-	-	-	-	14,865	14,865
	5,201	160,481	18,267	157,698	43,589	50,125	435,361
(Surplus) or Deficit on the Provision of Services	**3,357**	**83,114**	**3,515**	**101,840**	**25,249**	**(204,167)**	**12,908**

2010/2011	Chief Executive's Office	Community Services	Corporate Resources	Education & Children's Services	Environment	Corporate Activities	Total
Departmental Income & Expenditure	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Income							
Fees, charges and other service income	(1,526)	(60,466)	(13,141)	(53,576)	(17,619)	(970)	(147,298)
Grants and contributions	(160)	(14,114)	(772)	(2,948)	(1,086)	(199,629)	(218,709)
Interest and investment income	-	(32)	-	-	(69)	(154)	(255)
Income from council tax	-	-	-	-	-	(46,045)	(46,045)
(Gains) on the disposal of non-current assets	-	(1,169)	-	-	-	27	(1,142)
	(1,686)	(75,781)	(13,913)	(56,524)	(18,774)	(246,771)	(413,449)
Expenditure							
Employee Expenses	2,371	44,891	9,820	62,054	11,722	(37,906)	92,952
Other service expenses	1,521	73,703	3,033	23,398	23,349	11,841	136,845
Transfer Payments	-	833	-	777	-	22,313	23,923
Support service recharges	1,147	15,428	1,710	60,942	2,650	-	81,877
Depreciation, amortisation and impairment	18	14,370	713	9,306	5,432	20	29,859
Interest payments	-	23	-	-	-	14,057	14,080
	5,057	149,248	15,276	156,477	43,153	10,325	379,536
(Surplus) or Deficit on the Provision of Services	**3,371**	**73,467**	**1,363**	**99,953**	**24,379**	**(236,446)**	**(33,913)**

13. Property, Plant and Equipment

Movements in 2011/12

	Council Dwellings	Other land and buildings Restated	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Comm-unity Assets	Surplus Assets	Assets Under Con-struction	Total Property, Plant and Equipment	PFI Assets Included in PPE
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation									
At 1 April 2011 (as restated)	293,130	345,783	27,023	57,441	19,297	82	19,010	**761,766**	90,296
Additions	29,704	7,357	4,662	7,060	2,198	-	20,517	**71,498**	363
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	13,653	-	-	95	-	15	**13,763**	-
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	-	(15,949)	-	-	(91)	(5)	(172)	**(16,217)**	-
Derecognition - Disposals	(742)	(512)	(710)	-	-	-	-	**(1,964)**	-
Asset Reclassified	-	(325)	-	-	-	-	-	**(325)**	-
Other Movements in cost or valuation	10,580	12,061	-	-	10	(14)	(22,733)	**(96)**	-
At 31 March 2012	**332,672**	**362,068**	**30,975**	**64,501**	**21,509**	**63**	**16,637**	**828,425**	**90,659**
Accumulated Depreciation and Impairment									
At 1 April 2011 (as restated)	(34,463)	(9,258)	(17,339)	(10,798)	(1,663)	(1)	(38)	**(73,560)**	(1,510)
Depreciation Charge	(8,638)	(10,675)	(3,849)	(3,041)	(509)	-	-	**(26,712)**	(2,821)
Depreciation written out to the Revaluation Reserve	-	42	-	-	-	-	-	**42**	-
Depreciation written out to the Surplus/Deficit on the provision of services	-	3,587	-	-	3	-	12	**3,602**	-
Impairment losses/(reversals) recognised in the Surplus/Deficit on the Provision of Services	-	(1,450)	-	-	-	-	-	**(1,450)**	-
Derecognition - Disposals	90	50	658	-	-	-	-	**798**	-
Other movements in depreciation or impairment	(311)	307	(563)	562	-	-	12	**7**	-
At 31 March 2012	**(43,322)**	**(17,397)**	**(21,093)**	**(13,277)**	**(2,169)**	**(1)**	**(14)**	**(97,273)**	**(4,331)**
Net Book Value									
At 31 March 2012	289,350	344,671	9,882	51,224	19,340	62	16,623	**731,152**	86,328
At 1 April 2011 (as restated)	258,667	336,523	9,684	46,643	17,634	81	18,972	**688,204**	88,786

	Council Dwellings	Other land and buildings Restated	Vehicles, Plant, Furniture & Equipment	Infra-structure Assets	Comm-unity Assets	Surplus Assets	Assets Under Con-struction	Total Property, Plant and Equipment	PFI Assets Included in PPE Restated
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Cost or Valuation									
At 1 April 2010	261,879	334,037	23,667	52,059	18,172	80	19,030	**708,924**	90,296
Additions	11,740	12,956	3,415	5,382	1,446	2	21,871	**56,812**	-
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	(1,248)	-	-	(321)	-	(2)	**(1,571)**	-
Derecognition - Disposals	(1,030)	(307)	(59)	-	-	-	(20)	**(1,416)**	-
Other Movements in cost or valuation	20,541	345	-	-	-	-	(21,869)	**(983)**	-
At 31 March 2011	293,130	345,783	27,023	57,441	19,297	82	19,010	**761,766**	90,296
Accumulated Depreciation and Impairment									
At 1 April 2010	(26,346)	(2,945)	(13,573)	(7,765)	(1,310)	(1)	(12)	**(51,952)**	-
Depreciation Charge	(8,246)	(8,875)	(3,810)	(3,033)	(468)	-	(19)	**(24,451)**	(1,510)
Revaluation increases/(decreases) recognised in the Revaluation Reserve	-	3,191	-	-	115	-	-	**3,306**	-
Derecognition - Disposals	129	38	44	-	-	-	-	**211**	-
Impairments	-	(676)	-	-	-	-	-	**(676)**	-
Other movements in depreciation or impairment	-	7	-	-	-	-	(7)	**-**	-
At 31 March 2011	(34,463)	(9,260)	(17,339)	(10,798)	(1,663)	(1)	(38)	**(73,562)**	(1,510)
Net Book Value									
At 31 March 2011 (as restated)	258,667	336,523	9,684	46,643	17,634	81	18,972	**688,204**	88,786
At 1 April 2010 (as restated)	235,533	331,092	10,094	44,294	16,862	79	19,018	**656,972**	90,296

14. Property, Plant and Equipment

Depreciation

Property, Plant and Equipment is depreciated over their estimated useful lives. The straight- line method has been used over the following periods:

Council Dwellings	10-50 years
Other Land and Buildings	5-60 years
Vehicles, Plant, Furniture & Equipment	5-15 years
Infrastructure	5-25 years
Community Assets	10-40 years

Assets under Construction are not depreciated.

Capital Commitments

As at 31 March 2012, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment. This expenditure will be incurred in 2012/13 and in future budget years. Similar commitments in 2010/2011 were £29.5 million. The gross commitments for the Council's major projects are:

	£000s
Brunton Hall Refurbishment	2,024
Ormiston Community Centre	22
New Haddington School	6,358
Gullane Medical Centre	2,785
Tranent Library	922
Coastal Toilets	552
Salt Barn	450
Housing - High Street, Prestonpans	244
Housing - Station Road, Macmerry	319
Housing - Well Wynd Site, Tranent	59
	13,735

Revaluations

The Council carries out a rolling programme to ensure that Council Dwellings and Other Land and Building assets, which required to be measured at fair value, are revalued every five years.

Council Dwellings are revalued in one tranche. Other Land and Building assets are split into separate tranches and valued on a staged basis to ensure that each asset is revalued at least once every five years.

Details of the previous and future valuation dates is provided below.

	Council Dwellings	Other Land & Buildings Tranche 1 Service Use Properties	Tranche 2 Non-Service Use Properties	Tranche 2 New Build
Date of last valuation	01/04/2009	01/04/2011	01/04/2010	n/a
Date of next valuation	01/04/2014	01/04/2016	01/04/2015	2012-2016

Valuations are carried out by professional firms of chartered surveyors and by Council Estates staff. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

The significant assumptions applied in estimating the fair values for building are that;

- East Lothian Council has good and clear title to all the subjects under valuation;
- The appropriate planning consents are in place for the subjects to be used for their existing use;
- The subjects under valuation are in a state of repair and condition commensurate with their age;
- Mining operations nor any other environmental matters do not have a material impact on the valuations noted;
- No high alumina cement, asbestos, or other deleterious material was used in the construction of any property and that none has been subsequently incorporated;
- The properties are not subject to any unusual or especially onerous restrictions, encumbrances or outgoings and that good titles can be shown;
- The properties and their values are unaffected by any matters which would be revealed by a local search or inspection of any register and that the use and occupation are both legal.
- The inspection of those parts which have not been inspected would not cause an alteration in value.
- The land and properties are not contaminated nor adversely affected by radon.

15. Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Council. As set out in our significant accounting policies, the Council now requires heritage assets to be carried in the Balance Sheet at valuation.

The Council has instituted a rolling programme of valuation for material heritage assets. These are detailed below.

	Painting	Civic Regalia & Coins	Ceramics & Banners
Date of last valuation	01/04/2011		
Date of next valuation	31/03/2015	31/03/2013	31/03/2014

Previously, heritage assets were either recognised as community assets in the Property, Plant and Equipment (PPE) classification in the Balance Sheet or were not recognised as it was not possible to obtain cost information on the assets.

There are not believed to be any material transactions relating to heritage assets over the previous four accounting periods relating to either;

- The costs of acquisition;
- Donated assets;
- Disposals of assets; or
- Impairments recognised in the period.

In applying the new accounting policy, the Council has identified that assets that were previously held as community assets within PPE at a cost of less than £1,000 in total should now be recognised as heritage assets and measured at £90,000. The corresponding increase will be in the Revaluation Reserve. In addition, the Council has also recognised an additional £457,000 of heritage assets that were not previously recognised in the Balance Sheet. Again this increase is also recognised in the Revaluation Reserve. All these assets relate primarily to the Council's art collection.

The Council commissioned a full external valuation of the collection of paintings as at 01 April 2011. This was carried out by Lyon and Turnbull, fine art auctioneers and valuers. The valuations were based upon commercial markets including recent transaction information from auctions where similar types of paintings are regularly being purchased.

There were no additions or disposals in either 2010/11 or 2011/12.

The Council has an approved Collections Policy for items within the Museums service. The policy covers areas such as preservation, acquisition, disposal, management and the care of collections.

Since March 1997 the Collection has been housed in a purpose built store at Library and Museums Headquarters, Dunbar Road, Haddington. Increased space and environmental control has allowed objects to be collected which could not have been given appropriate storage in the past. Collecting will continue to take into consideration constraints of storage and conservation requirements.

Further information on the Museum's collections can be found at;

http://www.elmscollections.org/

	2011/12 Art Collection £000s	2010/11 Art Collection £000s
Cost or Valuation		
Net carrying amount at the start of the year	-	-
Revaluations	547	-
Net carrying amount at end of year	**547**	-

16. Assets held for sale

	2011/12 £000s	2010/11 £000s
Balance outstanding at start of year	**986**	**519**
Assets newly classified as held for sale		
Property, Plant and Equipment	325	986
Additions	-	1
Revaluation losses	(163)	-
Assets declassified as held for sale	(3)	-
Property, Plant and Equipment	-	-
Other assets	-	-
Assets sold	-	(520)
Balance outstanding at end of the year	**1,145**	**986**

17. Assets held under lease

Council as Lessee

Operating leases

The Council uses certain items of plant and equipment financed under the terms of operating leases.

The amount paid under these arrangements in 2011/12 was £1.28m (2010/11: £1.28m).

The future minimum lease payments due under non-cancellable leases in future years are:

	Minimum Lease Payments	
	31 March 2012	31 March 2011
	£000s	£000s
Not later than one year	724	1,099
Later than one year and not later than five years	374	861
	1,098	1,960

Finance leases

The Council has acquired a number of buildings, street lights and vehicles under finance leases.

The assets acquired under these leases are included within Property, Plant and Equipment at the following net amounts:

	31 March 2012	31 March 2011
	£000s	£000s
Other Land and Buildings	6,459	4,020
Vehicles, Plant, Furniture and Equipment	356	454
	6,815	4,474

The Council is committed to making minimum lease payments under these leases comprising settlement of the long-term liability for the interest in the assets acquired by the Council and finance costs that will be payable by the Council in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2012 £000s	31 March 2011 £000s
Finance lease liabilities (Net Present Value of Minimum Lease Payments)		
Current	168	163
Non-Current	1,388	1,556
Finance costs payable in future years	6,458	6,690
Minimum Lease Payments	8,014	8,409

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012 £000s	31 March 2011 £000s	31 March 2012 £000s	31 March 2011 £000s
Not later than one year	394	394	168	163
Later than one year and not later than five years	1,200	1,327	332	445
Later than five years	6,420	6,688	1,056	1,111
	8,014	8,409	1,556	1,719

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2011/12 £9,000 in contingent rents were payable by the Council.

Council as Lessor

Operating Leases

The Council leases out property under operating leases for the following purposes;

- For the provision of community services such as community centres and sports facilities;
- For economic development purposes to provide suitable affordable accommodation for business.

The future minimum lease payments receivable under non-cancellable leases in future years are:

	Minimum Lease Payments	
	31 March 2012	31 March 2011
	£000s	£000s
Not later than one year	793	726
Later than one year and not later than five years	1,960	1,914
Later than five years	21,636	21,216
	24,389	23,856

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews.

18. Private Finance Initiatives and Similar Contracts

During 2002/03 the Council entered into a thirty year partnership with Innovate East Lothian Ltd for the provision of enhanced secondary school facilities, a new community centre and swimming pool and the associated facility management of the various sites.

The assets used to provide services are recognised on the Council's Balance Sheet. Movements in their value over the year are detailed in the analysis of the movement on the Property, Plant and Equipment balance in Note 13.

The Council makes an agreed payment each year which is increased each year by inflation and can be reduced if the contractor fails to meet availability and performance standards in any year - but is otherwise fixed. The PPP contract runs until 2035 at which time the facilities and all operational services revert to full Council management. At this time responsibility for facilities management, maintenance, insurance, etc will all be transferred back to the Council.

Under the terms of the contract all facilities should be handed back to the Council in the same condition as at the Service Availability Date i.e. the date the facilities were completed. To achieve this, there will be an increased lifecycle spend over the last five years of the contract ensuring the facilities are handed back in the appropriate condition. Innovate East Lothian Limited has no right of renewal of the contract

Payments remaining to be made under the PFI contract at 31 March 2012 are as follows:

	Payment for Services	Re - imburse ment of Capital Expendit ure	Interest	Total
	£000s	£000s	£000s	£000s
Payable in 2012/13	3,254	1,154	3,023	7,431
Payable within 2-5 years	13,933	4,447	11,343	29,723
Payable within 6-10 years	17,594	7,243	12,316	37,153
Payable within 11-15 years	18,989	8,284	9,881	37,154
Payable within 16-20 years	17,141	13,346	6,666	37,153
Payable within 21-25 years	8,774	11,376	1,508	21,658
Total	79,685	45,850	44,737	170,272

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to pay the liability to the contractor for capital expenditure is as follows:

	31 March 2012	31 March 2011
	£000s	£000s
Balance at start of year	46,967	48,186
Payments	(1,117)	(1,219)
Capital expenditure incurred	-	-
Other Movements	-	-
Balance outstanding at year-end	45,850	46,967

19. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases and PFI/PPP contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed in the second part of this note.

	31 March 2012 £000s	31 March 2011 £000s
Opening Capital Financing Requirement	**274,484**	**234,907**
Capital Investment		
Property , Plant and Equipment	71,498	56,813
Sources of finance		
Government grants	(14,537)	(8,658)
Other Contributions	(1,156)	(354)
Direct Revenue Contributions	(4,939)	(535)
Loans Fund	(8,816)	(7,689)
Closing Capital Financing Requirement	316,534	274,484

20. Impairment Losses

During 2011/12 the Council recognised an impairment loss of £1.45 million in relation to a school building. With effect from the end of the current academic year the Council will be vacating the site and will be building a new school on a joint campus. The recoverable amount of the asset has been reduced to its value in use and the impairment loss has been charged to the Education line in the Comprehensive Income and Expenditure Statement.

21a. Long Term Investments

Long Term Investments comprise the following:

	31 March 2012 £000s	31 March 2011 £000s	Details
Lothian Buses plc	2,167	1,509	East Lothian Council holds 200,000 ordinary shares representing 3.1% of the share capital. A dividend is received each year.
East Lothian Investments Limited	207	187	The Council's interest, estimated as 40% was inherited from the former Lothian Investments Board. No dividends are received.
East Lothian Land	602	618	Set up in 2000 for the purpose of managing land to support economic development. The Council is the sole shareholder. No dividends are received.
Total	2,976	2,314	

Long –term investments are held at fair value, which the Council considers to equal the net assets of the related companies.

21b. Long Term Debtors

In addition to short-term debt, the Council is owed money by a small number of people and organisations that will be repaid over a period greater than 1 year.

	31 March 2012 £000s	31 March 2011 £000s	Purpose
PPP - Prepaid lifecycle replacement costs	555	756	Prepaid lifecycle replacement costs
Private property owners - common repairs	830	588	Repairs to private property funded by secured ELC loans
Employees - car loans	67	157	Loans to employees repaid over 3-5 years
North Berwick Trust	407	407	Loan secured on land
East Lothian Investments	335	135	Loan to be repaid over 3 years
East Lothian Housing Association	5,096	2,561	Loan secured on land and houses
Other	15	19	
Total	7,305	4,623	

22. Short-term Debtors

Thousands of people and organisations owe the Council money that is due for payment within a year. In summary, the money owed to the Council on 31 March was:

	31 March 2012 £000s	31 March 2011 £000s
Central Government Bodies	8,962	5,590
Other local authorities	435	302
NHS bodies	25	164
Other entities and individuals	26,751	25,537
Total	36,173	31,593

Based on past experience and our assessment of collection risks, we have made the following provision against non-payment of these debts:

	31 March 2012 £000s	31 March 2011 £000s
Taxpayers - Council Tax	(6,687)	(6,598)
Customers - Goods & Services	(2,304)	(2,385)
Taxpayers - Community Charge	(7,756)	(7,761)
Tenants - Council House Rents	(1,734)	(1,465)
Total	(18,481)	(18,209)

23. Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long-Term 31 March 2012 £000s	31 March 2011 £000s	Current 31 March 2012 £000s	31 March 2011 £000s
Investments				
Loans and receivables	-	-	47	47
Unquoted equity investment at fair value	2,976	2,314	-	-
Total investments	2,976	2,314	47	47
Debtors				
Loans and receivables	7,305	4,623	36,173	31,593
Borrowing	(275,926)	(238,718)	(16,580)	(14,937)
Financial liabilities at amortised cost				
Creditors				
Financial Liabilities at contract amount	-	-	(23,793)	(23,944)
Other Long Term Liabilities	(144,038)	(131,664)	-	-
PFI and Other long term liabilities				

The Council did not reclassify any financial assets or liabilities between categories during the year.

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

	2011/12 £000s	2010/11 £000s
Interest expense	14,865	14,080
Interest income	(708)	(186)
Dividends	(103)	(69)
Net (gain)/loss for the year	14,054	13,825

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated interest rates at 31 March 2012 of between 1.41% and 4.39% for new loans from the PWLB and 4.25% for other loans

- No early repayment or impairment is recognised

- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value

- The fair value of trade and other receivables is taken to be the invoiced or billed amount.

In calculating the fair values on loans the new borrowing rate, as opposed to the premature repayment rate has been used as the discount factor for all Public Works Loan Board (PWLB) borrowing. This is because the premature repayment rate includes a margin that represents the lender's profit as a result of rescheduling the loan, which is not included in the fair value calculation since any motivation other than securing fair price should be ignored.

The fair values have been assessed with expert professional assistance from the Council's treasury advisers.

The fair values calculated are as follows:

	31 March 2012 Carrying Amount £000s	31 March 2012 Fair Value £000s	31 March 2011 Carrying Amount £000s	31 March 2011 Fair Value £000s
Investments				
Loans and Receivables	47	47	47	47
Unquoted equity investment at fair value	2,976	2,976	2,314	2,314
Debtors				
Long Term Loans and Receivables	7,305	7,305	4,623	4,623
Short Term Loans and Receivables	36,173	36,173	31,593	31,593
Borrowing				
Financial Liabilities	(292,506)	(307,717)	(253,655)	(248,981)

The fair value of financial assets is the same as the carrying amount either because the assets mature within 1 year or they are non-market assets associated with the specific circumstances of the Council.

Interest due on 31 March 2012 is added to the outstanding asset or liability. Loans with stepped interest rates are valued on a basis of average interest applied over the whole loan period.

Disclosure of nature and extent of risk arising from Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- Credit risk — the possibility that other parties might fail to pay amounts due to the Council;

- Liquidity risk — the possibility that the Council might not have funds available to meet its commitments to make payments;
- Re-financing risk — the possibility that the Council might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms.
- Market risk — the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

Overall procedures for managing risk

The Council's overall risk management procedures focus on the unpredictability of financial markets, and are structured to implement suitable controls to minimise these risks. The procedures for risk management are set out through a legal framework in the Local Government (Scotland) Act 2003 and associated regulations. These require the Council to comply with the CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Overall, these procedures require the Council to manage risk in the following ways:

- by formally adopting the requirements of the CIPFA Treasury Management Code of Practice;
- by the adoption of a Treasury Policy Statement and treasury management clauses within its financial regulations/standing orders/constitution;
- by approving annually in advance prudential and treasury indicators for the following three years limiting:
    - The Council's overall borrowing;
    - Its maximum and minimum exposures to fixed and variable rates;
    - Its maximum and minimum exposures to the maturity structure of its debt;
    - Its maximum annual exposures to investments maturing beyond a year.
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counterparties in compliance with the Government Regulations.

These are required to be reported and approved at or before the Council's annual Council Tax setting budget or before the start of the year to which they relate. These items are reported with the annual treasury management strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year, as is a mid-year update.

The annual treasury management strategy which incorporates the prudential indicators was approved by Council on 8 February 2011 and is available on the Council website. The key issues within the strategy were:

- The Authorised Limit for 2011/12 was set at £473.0m. This is the maximum limit of external borrowings or other long term liabilities.
- The Operational Boundary was expected to be £432.6m. This is the expected level of debt and other long term liabilities during the year.

These policies are implemented by a central treasury team. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These TMPs are a requirement of the Code of Practice and are reviewed periodically.

Credit risk

Credit risk arises from deposits with banks and financial institutions, loans to third part organisations, as well as credit exposures to the Council's customers.

This risk relating to banks and financial institutions is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Council uses the creditworthiness service provided by Sector. This service uses a modelling approach with credit ratings from all three rating agencies - Fitch, Moodys and Standard and Poors, forming the core element. However, it does not rely solely on the current credit ratings of counterparties but also uses the following as overlays:

- credit watches and credit outlooks from credit rating agencies
- CDS spreads to give early warning of likely changes in credit ratings
- sovereign ratings to select counterparties from only the most creditworthy countries

The full Investment Strategy for 2011/12 was approved by the Council on 8 February 2011 and is available on the Council's website. The Council's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution.

A risk of irrecoverability applies to all of the Council's deposits. However, recent experience has shown that it is rare for such entities to be unable to meet their commitments. No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits, loans and bonds.

The Council considers that its maximum exposure to credit risk relating to debtors is reflected in the accounts by the provisions made for potential bad debts.

Liquidity risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), as well as through a cash flow management system, as required by the CIPFA Code of Practice. This seeks to ensure that cash is always available when needed and that surplus holdings of cash are avoided as far as possible.

The Council has ready access to borrowings from the money markets to cover any day to day cash flow need, and the PWLB and money markets for access to longer term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Refinancing and Maturity risk

The Council maintains a significant debt portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature.

The approved treasury indicator limits for the maturity structure of debt are the key parameters used to address this risk. The Council approved treasury strategy address the main risks and the central treasury team address the operational risks within the approved parameters.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

	31 March 2012 £000s	31 March 2011 £000s
Loan Type		
Public Works Loan Board	(240,153)	(207,213)
Finance leases	(1,556)	(1,719)
Intra-group loans	(4,107)	(2,745)
Market loans	(46,690)	(41,978)
	(292,506)	(253,655)
Loan Maturity		
Repayable after more than 10 years	(180,222)	(148,715)
Repayable between 5 and 10 years	(64,710)	(56,671)
Repayable between 2 and 5 years	(20,515)	(25,920)
Repayable between 1 and 2 years	(10,479)	(7,412)
Long-term borrowing	(275,926)	(238,718)
Repayable within 1 year	(16,580)	(14,937)
	(292,506)	(253,655)

Market risk

Interest rate risk - The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Council, depending on how variable and fixed interest rates move across differing financial instrument periods. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Comprehensive Income and Expenditure Statement will rise;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together Council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed.

To illustrate the impact of changes in interest rates upon the Council, the following table shows the financial effect if variable rates had been 1% higher at 31 March 2012, with all other variables held constant.

	31 March 2012 £000s	31 March 2011 £000s
Increase in interest payable on variable rate borrowing	81	81
Increase in interest receivable on variable rate lending	1	-
Net effect on Comprehensive Income & Expenditure Statement	80	81

Price risk - The Council does not generally invest in equity shares or marketable bonds.

However, it does have shareholdings to the value of £2.976 million in a number of joint ventures and in local industry. Whilst these holding are generally illiquid and are not held for financial reasons, in principle the Council is exposed to losses arising from movements in the price of the shares.

As the shareholdings have arisen in the acquisition of specific interests, the Council is not in a position to limit its exposure to price movements by diversifying its portfolio. Instead it only acquires shareholdings in return for "open book" arrangements with the company concerned so that the Council can monitor factors that might cause a fall in the value of specific shareholdings.

On behalf of the Trusts and Common Good Funds, the Council does invest in equities and bonds via a professional investment management company. The investment managers seek to secure and grow the capital value of the funds whilst generating a return on those assets that the Trusts and Common Goods can use. The choice of investments is at the discretion of the investment managers guided by the underlying objective of securing the current and longer-term capital value of the funds.

Foreign exchange risk - With the exception of some investments held as part of Trusts and Common Good Funds, the Council has no financial assets or liabilities denominated in foreign currencies.

The investment managers for the Trusts and Common Good Funds are able to invest in equities and bonds denominated in foreign currency and this does introduce an element of foreign exchange risk. However, this is part of the overall risk management strategy, as exposure to UK investments only would increase the exposure to risks arising from changes within the UK economy. All investment decisions are guided by the underlying objective of securing the current and longer-term capital value of the funds.
The most significant investments held that are denominated in foreign currency are listed in note 5 to the Supplementary Financial Statements.

24. Short Term Creditors

At any financial year-end we owe money to thousands of people and organisations due for payment within a year. In summary, the money the Council owed on 31 March was:

	31 March 2012 £000s	31 March 2011 £000s
Central government bodies	(6,136)	(8,195)
Other local authorities	(3,070)	(2,094)
NHS bodies	(382)	(316)
Other entities and individuals	(14,205)	(13,339)
Total	(23,793)	(23,944)

25. Provisions

Included within gross expenditure are the following provisions against known future costs.

	Affordable Homes Development Fund £000s	Accumulated Absences Fund £000s	Total £000s
Balance at 1 April 2011	(1,724)	(5,657)	(7,381)
Provisions made in 2011/2012	(460)	(3,496)	(3,956)
Amounts used in 2011/12	-	5,657	5,657
Balance at 31 March 2012	(2,184)	(3,496)	(5,680)

Prior to October 2008, any funds raised by reducing the second home or empty property Council Tax discount had been allocated to Registered Social Landlords (RSLs) for the development of affordable housing. Under Scottish Government direction, Local Authorities can now use this income themselves, disburse these funds to other organisations and individuals, as well as RSLs. Funds not yet allocated are held in this provision.

The Accumulated Absences Fund relates to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Council. The most significant benefit covered by this heading is holiday pay. The cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. At the end of each financial year the Council accrues for any annual leave and other benefits earned but not taken at 31st March each year. It is expected that these benefits will be used over the coming year.

26. Long Term Liabilities

At 31 March the Council held some funds that are linked to agreements that will be implemented in the future.

	31 March 2012 £000s	31 March 2011 £000s	Details
Deferred Liabilities - Developers' Contributions	(3,266)	(3,846)	These amounts represent the payments received from developers and are linked to future capital spending. Funding is retained until project is completed
Deferred Liabilities - Rental Income in advance	(588)	(623)	Income to be released over the lease period
Other	(301)	(305)	
PPP Liabilities	(45,850)	(46,967)	This amount represents the outstanding obligations the Council has to make payments under finance leases. More details are provided at Note 18
Net Pensions Liability	(94,033)	(79,923)	The underlying commitment that the Council has to pay retirement benefits. Recovered from the Council over future years. More details are provided at Note 28
Total Long term liabilities	(144,038)	(131,664)	

27. Contingent liabilities and contingent assets

The Council has been subjected to compensation claims under equal pay legislation. At 31 March 2012 most of these have been settled but a small number remain within the Employment Tribunal process. The value of these claims have yet to be finalised but are not expected to be material.

28. Defined Benefit Pension Schemes

Participation in Pensions schemes

As part of the terms and conditions of employment of its officers, the Council makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments that need to be disclosed at the same time that employees are earning their future entitlement.

The Council 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 Council 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 post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund via the Movement in Reserves Statement during the year:

Assets and liabilities in Relation to Post-Employment Benefits

A reconciliation of present value of the scheme liabilities can be presented as follows:

	31 March 2012 £000s	31 March 2011 £000s
Opening Balance at 1 April	(383,154)	(425,972)
Current Service Cost	(10,630)	(12,876)
Interest Costs	(21,093)	(21,956)
Contributions by Scheme participants	(3,807)	(3,806)
Actuarial gains / (losses)	13,271	27,606
Benefits paid	13,972	13,621
Curtailments & settlements	(221)	-
Past service costs	(51)	40,229
Closing Balance at 31 March	(391,713)	(383,154)

Reconciliation of fair value of the scheme assets:

	31 March 2012 £000s	31 March 2011 £000s
Opening Balance at 1 April	303,231	283,199
Expected rate of return	21,357	20,826
Actuarial gains / (losses)	(30,795)	(5,129)
Employer contributions	14,051	14,150
Contributions by Scheme participants	3,807	3,806
Benefits paid	(13,972)	(13,621)
Closing Balance at 31 March	297,679	303,231

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on the gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect the long-term real rate of return experienced in the respective markets.

	2007/08	2008/09	2009/10	2010/11	2011/12
	%	%	%	%	%
Differences between the expected and actual return on assets	-11.1%	-34.3%	20.6%	-1.7%	-10.3%
Experience gains and losses on liabilities	-0.01%	3.02%	-0.47%	-3.2%	6.5%

Total Expense recognised

The following transactions have been made in the Comprehensive Income & Expenditure Statement and the Movement in Reserves Statement.

	2011/12 £000s	2010/11 £000s
Comprehensive Income and Expenditure Statement		
Cost of Services:		
Current service cost	10,630	12,876
Past service costs/(gains)	51	(40,230)
Settlements & Curtailments	221	-
Financing and Investment Income and Expenditure		
Interest cost	21,093	21,956
Expected return on assets in the scheme	(21,357)	(20,826)
Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services	10,638	(26,224)
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement		
Actuarial gains and losses	17,524	(22,477)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	28,162	(48,701)
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code.	3,414	40,374
Actual amount charged against the General Fund Balance for pensions in the year		
Employers Contributions Payable	14,052	14,150

Defined contribution scheme

Teachers employed by the Council 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 Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

In 2011/12, the Council paid £5.36m (2010/11: £5.34m) to Teachers' Pensions in respect of teachers' retirement benefits, representing 14.9% (2010/11: 14.9%) of pensionable pay.

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 Council to identify a share of the underlying liabilities in the scheme attributable to its own employees. This means it is not possible to identify the extent to which a surplus or deficit in the scheme may affect the amount of future contributions. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. In 2011/12, the Council paid £0.592m (2010/11: £0.247m) to Teachers' Pensions in respect of these retirement benefits.

Ex-Gratia Scheme

Under Regulation 45 of The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, the Council awarded an Ex-Gratia discretionary allowance to retiring employees in respect of service for which they were ineligible to join the pension fund prior to 1986.
In 2011/12, the Council paid £0.07m (2010/11: £0.07m) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £0.89m.

29. Usable Reserves

Movements in the Council's Usable Reserves are detailed in the Movement in Reserves Statement.

30. Unusable Reserves

31 March 2011 Restated £000s		31 March 2012 £000s
(78,815)	Revaluation Reserve	(87,558)
(1,315)	Available-for-sale Financial Instruments Reserve	(1,976)
79,924	Pensions Reserve	94,033
(287,531)	Capital Adjustment Account	(281,828)
5,246	Financial Instruments Adjustment Account	4,988
5,657	Employee Statutory Adjustment Account	3,496
(276,835)	**Total**	**(268,845)**

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are;

- Revalued downwards or impaired and the gains are lost
- Used in the provision of services and the gains are consumed through depreciation; or
- Disposed of and the gains are realised.

The Reserve contains only revaluation gains since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

31 March 2011 Restated £000s		31 March 2012 £000s
(74,038)	**Balance at 1 April**	**(78,815)**
(6,469)	Upward revaluation of assets	(18,254)
-	Downward revaluation of assets and impairment not charged to the Surplus/Deficit on the Provision of Services	3,992
(6,469)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(14,262)
1,570	Difference between fair value depreciation and historical cost depreciation	5,490
122	Accumulated gains on assets sold or scrapped	29
-	Amount written off to the Capital Adjustment Account	-
(78,815)	**Balance at 31 March**	**(87,558)**

Available for Sale Financial Instruments Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are;

- Revalued downwards or impaired and the gains are lost; or
- Disposed of and the gains are realised.

31 March 2011 £000s		31 March 2012 £000s
(135)	**Balance at 1 April**	**(1,315)**
(1,200)	Upward revaluation of investments	(677)
20	Downward revaluation of investments not charged to the Surplus/Deficit on the Provision of Services	16
(1,180)		(661)
(1,315)	**Balance at 31 March**	**(1,976)**

Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pension for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

31 March 2011 £000s		31 March 2012 £000s
142,774	**Balance at 1 April**	**79,924**
(22,477)	Actuarial gains or losses on pensions assets and liabilities	17,524
(26,223)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Defict on the Provision of Services in the Comprehensive Income and Expenditure Statement	10,638
(14,150)	Employer's pensions contributions and direct payments to pensioners payable in the year	(14,052)
79,924	**Balance at 31 March**	**94,034**

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

31 March 2011 Restated £000s		31 March 2012 £000s
(298,616)	**Balance at 1 April**	**(287,531)**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	
24,451	Charges for depreciation of non-current assets	26,712
5,409	Revaluation and impairment losses on Property, Plant and Equipment	14,234
1,723	Assets written off on disposal or sale	1,137
31,583		42,083
(1,692)	Adjusting amounts written out of the Revaluation Reserve	(5,490)
29,891	Net amounts written out of the cost of non-current assets consumed in the year	36,593
	Capital Financing applied in the year	
(9,013)	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(15,694)
(9,225)	Statutory provison for the financing of capital investment charged against the General Fund and HRA balances	(10,258)
(568)	Capital expenditure charged against the General Fund and HRA balances	(4,938)
(18,806)		**(30,890)**
(287,531)	**Balance at 31 March**	**(281,828)**

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions.

The Council uses the Account to manage premiums paid on the early redemption of loans. Premiums are debited to the Comprehensive Income and Expenditure Statement when they are incurred, but reversed out of the general Fund Balance to the Account in the Movement in Reserves Statement. Over time, the expense is posted back to the General Fund

Balance in accordance with statutory arrangements for spreading the burden on council tax. In the Council's case this period is the unexpired term that was outstanding on the loans when they were redeemed. As a result, the balance on the Account at 31 March 2012 will be charged to the General Fund over the next 15 years.

31 March 2011 £000s		31 March 2012 £000s
5,383	**Balance at 1 April**	**5,246**
119	Premiums incurred in the year and charged to the Comprehensive Income and Expenditure Statement	(2)
(256)	Proportion of premiums incurred in previous financial years to be charged against the General Fund Balance in accordance with statutory provisions	(256)
(137)	Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory provisions	(258)
5,246	**Balance at 31 March**	**4,988**

Employee Statutory Adjustment Account

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

31 March 2011 £000s		31 March 2012 £000s
5,907	**Balance at 1 April**	**5,657**
(5,907)	Settlement or cancellation of accrual made at the end of the preceding year	(5,697)
5,657	Amount accrued at the end of the current year	3,496
(250)	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(2,201)
5,657	**Balance at 31 March**	**3,496**

31. Transfers to/From Earmarked Reserves

This note sets out the amounts set aside from General Fund balances in earmarked reserves to provide financing for future expenditure and the amounts posted back from earmarked reserves to meet General Fund expenditure in the current year. All these funds are carried forward as part of the Council's General Services balance.

The Mid and East Lothian Drugs & Alcohol Project (MELDAP) is jointly funded by East Lothian Council and the NHS.

Under the Council's Devolved School Management (DSM) scheme, an element of funding unused by schools at 31 March is available to schools to spend the following financial year.

	Mid and East Lothian Drugs & Alchohol Project	Devolved School Management Balances
Balance at 1 April 2010	87	168
Transfers In during 2010/2011	57	97
Balance at 31 March 2011	144	265
Transfers Out during 2011/2012	(82)	-
Transfers In during 2011/2012	-	308
Balance at 31 March 2012	**62**	**573**

32. Events after the Balance Sheet Date

Events after the date of the Balance Sheet (31 March 2012) up to the date of signing of these financial statements have been considered. There were no events after the date of the Balance Sheet which would require the figures to be adjusted.

The Police and Fire Reform (Scotland) Act 2012 received royal assent on 7 August 2012. Responsibility for Police and Fire and Rescue Services will transfer from local government to new central government bodies on 1 April 2013. The full impact of the reform process is currently being assessed. This is considered to be a non-adjusting post balance sheet event.

33. Grant Income

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12.

	2011/12 £000s	2010/11 £000s
Credited to Taxation & Non-Specific Grant Income		
General Capital Grant	(8,215)	(4,374)
Sporting Facilities	(600)	-
Contributions from developers	(709)	(392)
Mortgage to Rent scheme/Housing Grants	(2,370)	(3,868)
Other Grants & Contributions	(3,800)	(378)
Total	**(15,694)**	**(9,012)**
Credited to Services		
Housing Benefit Subsidy/Department for Work & Pensions	(23,190)	(21,896)
Resource Transfer Funds/NHS	(3,025)	(3,011)
Criminal Justice Grant/Criminal Justice Authority	(1,132)	(947)
Leader Programme	(988)	(489)
Housing Benefit Administration Subsidy/Department for Work & Pensions	(709)	(737)
Change Funds	(661)	-
Private Sector Housing Grant/Scottish Government	(619)	-
Funding for Drugs & Alcohol Teams/NHS	(564)	(689)
Educational Maintenance Allowance Funding/Scottish Government	(318)	(354)
Active Schools/Sports Scotland	(304)	(285)
Determined to Succeed/Scottish Government	(116)	(374)
Home Insulation Grants	(100)	(364)
Total	**(31,726)**	**(29,146)**

The Council has received a number of grants and contributions that have yet to be recognised as income as they have conditions attached to them that may require the monies or property to be returned to the giver. The balances at the year-end are as follows.

	2011/12 £000s	2010/11 £000s
Capital Grants & Contributions Receipts in Advance		
Sport Scotland	150	600
Other	-	50
Total	**150**	**650**

34. Cash Flow Statement - Adjustments to net surplus or deficit on the provision of services for non-cash movements.

	2011/12 £000s	2010/11 £000s
Depreciation	(26,712)	(24,451)
Impairments and downward valuations	(14,234)	(5,409)
Carrying amount of non-current assets held for sale, sold or derecognised	(1,165)	(1,723)
Net charges made for retirement benefits in accordance with IAS 19	(10,638)	26,224
Employer's contributions payable to the Lothian Pension Fund	14,052	14,150
Increase/(Decrease) in revenue long term-debtors & liabilities	-	146
(Increase)/Decrease in provisions	1,429	(565)
Increase/(Decrease) in inventories	(145)	66
(Increase)/Decrease in revenue creditors	1,520	1,083
Increase/(Decrease) in revenue debtors	4,580	(1,836)
Total	**(31,313)**	**7,685**

35. Cash Flow Statement – Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities

	2011/12 £000s	2010/11 £000s
Proceeds from capital grants	12,429	9,352
Proceeds from short-term investments	431	153
Proceeds from sale of PPE, Assets Held for Sale and other non-current assets	1,174	2,865
Total	**14,034**	**12,370**

36. Material Items of Income and Expense

Where items are not disclosed on the face of the Comprehensive Income and Expenditure Statement (CI&ES), the Council is required to disclose the nature and amount of material items. Material items of expenditure charged to services in the year are shown in the table below.

	2011/12 £000s	2010/11 £000s
Depreciation charged on assets	26,712	24,451
Impairments and downward valuations	9,978	-
Housing Benefit Paid	19,375	22,314
Unitary Charge/PPP payments to contractor	8,498	8,201

Material items of income credited to service revenue accounts within the CIES largely relate to grants and contributions and these are disclosed in Note 33. Subsidy income in relation to the payments of Housing Benefit and Council Tax Benefit (included in the table above) is also disclosed at Note 28.

37. Prior Year Adjustment

During 2011/12 a valuation of a portion of the Council's Other Land and Buildings assets was carried out by external valuer.

The valuation was carried out at 1 April 2011 and showed that the value of the Council's land assets had decreased by £157.2 million whilst the value of its building assets had increased by £60.4 million since the last formal valuation on 1 April 2006. The valuation was available but had not been analysed before the 2010/11 accounts were signed and should have been posted in the 2010/11 financial statements. The valuer has confirmed that the net decline in values was linked to the decline in residential land values which occurred in 2008 as a consequence of the financial crisis and we have therefore concluded that a prior period adjustment should be made by correcting the balance sheet at the beginning of the earliest period presented in the financial statements (i.e. at 1 April 2010).

A prior year adjustment for the consequent changes in the depreciation charge on operational buildings has not been carried out on the grounds of materiality.

There is no effect on the year-end General Fund balance as any debits or credits relating to depreciation or revaluation losses are adjusted through the Movement in Reserves statement.

The effect on each of the affected financial statement lines is included below.

There were no revaluation gains relating to land which the losses could be charged against and consequently all of this loss has been taken to the Capital Adjustment Account.

	Other Land & Buildings restated £000s	Other categories of property, plant and equipment £000s	Total £000s
Net Book Value under previous accounts at 31 March 2010	427,865	325,888	**753,753**
Adjustment relating to Revaluation losses through Capital Adjustment Account	(157,274)	-	**(157,274)**
Adjustment relating to Revaluation gains through Revaluation Reserve	60,501	-	**60,501**
Net Book Value after adjustments at 31 March 2010	331,092	325,888	**656,980**

Net Book Value under previous accounts at 31 March 2011	433,296	351,681	**784,977**
Adjustment relating to Revaluation losses through Capital Adjustment Account	(157,274)	-	**(157,274)**
Adjustment relating to Revaluation gains through Revaluation Reserve	60,501	-	**60,501**
Net Book Value after adjustments at 31 March 2011	336,523	351,681	**688,204**

	£000s
Unusable Reserves under previous accounts at 31 March 2010	**(315,498)**
Adjustment relating to Revaluation losses through Capital Adjustment Account	157,274
Adjustment relating to Revaluation gains through Revaluation Reserve	(60,501)
Unusable Reserves after adjustments at 31 March 2010	**(218,725)**

	£000s
Unusable Reserves under previous accounts at 31 March 2011	**(373,608)**
Adjustment relating to Revaluation losses through Capital Adjustment Account	157,274
Adjustment relating to Revaluation gains through Revaluation Reserve	(60,501)
Unusable Reserves after adjustments at 31 March 2011	**(276,835)**

Housing Revenue Account

The Housing Revenue Account reflects a statutory obligation to maintain a revenue account for local authority housing provision in line with the Housing (Scotland) Act 1987. The following statement shows how much the Council spent in fulfilling its statutory responsibility to provide, improve and manage its Housing Stock.

Income and Expenditure Account

2010/11 £000s		2011/12 £000s	2011/12 £000s
	Income		
(18,513)	Dwelling rents	(19,613)	
(333)	Non-dwelling rents	(395)	
(415)	Service charges	(437)	
(13)	Other income	(200)	
(19,274)	**Total Income**		(20,645)
	Expenditure		
7,197	Repairs and maintenance	6,951	
5,693	Supervision and management	6,059	
8,246	Depreciation and impairment of fixed assets	8,638	
321	Increase in bad debt provision	393	
1,054	Other expenditure	2,471	
22,511	**Total Expenditure**		24,512
3,237	**Net cost of HRA services as included in the Comprehensive Income and Expenditure Statement**		3,867
141	HRA services share of Corporate and Democratic Core		148
3,378	**Net Cost of HRA Services**		4,015
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement		
(1,169)	(Gains)/Losses on sale of HRA fixed assets		(427)
2,801	Interest payable and similar charges		3,478
(32)	Interest and investment income		(370)
(1,194)	Pensions interest cost and expected return on pensions assets		107
(3,868)	Capital grants and contributions receivable		(2,370)
(84)	**(Surplus)/Deficit for the year on HRA services**		4,433

Housing Revenue Account

Movement on the HRA Statement

2010/11 £000s		2011/12 £000s
(3,570)	Balance on the HRA at the end of the previous period	(4,743)
(84)	Surplus for the year on the HRA Income and Expenditure Account	4,433
(483)	Adjustments between accounting basis and funding basis under statute	(192)
(567)	(Increase) or decrease in the Housing Revenue Account Balance before transfers	4,241
494	HRA Balance transferred to General Services	247
(1,100)	Transfers into HRA from Capital Fund	(2,493)
(1,173)	(Increase) or decrease in year on the HRA	1,995
(4,743)	**Balance on the HRA at the end of the current period**	**(2,748)**

Note to the Movement of the HRA Statement

2010/11 £000s		2011/12 £000s
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year	
(8,246)	Depreciation and impairment of fixed assets	(8,638)
3,868	Capital grant and contributions applied	2,370
1,169	Gain or loss on sale of HRA fixed assets	427
1,194	Net charges made for retirement benefits in accordance with IAS 19	(25)
(2,015)		(5,866)
	Items not included in the HRA Account but included in the movement on HRA Balance for the year	
432	Employer's contributions payable to the Lothian Pension Fund	254
1,100	Loans fund principal	1,414
-	Capital expenditure funded by the HRA	4,006
1,532		5,674
(483)	**Net additional amount required by statute to be credited to the HRA Balance for the year**	(192)

Council Tax Income 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.

2010/11 £000s		2011/12 £000s
(50,865)	**Gross council tax levied and contributions in lieu**	(51,314)
(32)	Council tax benefits (net of government grant)	(8)
	Less :	
13	Discounts for prompt payment	13
4,281	Other discounts and reductions	4,381
440	Provision for bad and doubtful debts	910
(46,163)		(46,018)
118	Adjustments to previous years' council tax	77
(46,045)	Transfer to General Fund	(45,941)

Non-domestic Rate Income Account

The Non-Domestic Rate Account (Scotland) is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national non-domestic rate pool.

2010/11 £000s		2011/12 £000s
	Rates contributable to/from National Pool	
(27,242)	Gross rates levied & contributions in lieu	(28,897)
7,479	Reliefs and other deductions	7,939
6	Provision & bad debts written off	39
(19,757)		(20,919)
220	Adjustments relating to previous years	523
(19,537)	Net non-domestic rates income	(20,396)
(38,455)	Contribution from the National Non-domestic Rate Pool	(19,319)

Common Good Account

There are 4 separate Common Good Funds that were inherited from the former Burghs of Dunbar, Haddington, Musselburgh and North Berwick, and which are used to further the common good of the residents of these areas. Although the Common Good Funds are part of the Council and follow Council accounting policies, the finances of the Common Good must be kept separate from Council funds.

Comprehensive Income and Expenditure Statement

2010/11 £000s		2011/12 £000s
	Income	
(582)	Rents and other income	(478)
(582)		(478)
	Expenditure	
2	Employees	2
476	Premises-related expenditure	56
50	Supplies and services	38
45	Third party payments	55
89	Depreciation	77
662		228
80	**Cost of Services**	(250)
(308)	(Gains)/Losses on the disposal of non current assets	(0)
(34)	Financing and investment income and expenditure	(85)
(262)	**(Surplus) or Deficit on Provision of Services**	**(335)**
(796)	(Surplus) or deficit on revaluation of Property, Plant and Equipment	-
(116)	(Surplus) or deficit on revaluation of available for sale financial instruments	38
(912)	**Other Comprehensive Income and Expenditure**	38
(1,174)	**Total Comprehensive Income and Expenditure**	**(297)**

Balance Sheet

31 March 2011 £000s		31 March 2012 £000s
2,913	Property, Plant & Equipment	2,884
2,461	Long Term Investments	2,394
1,396	Long Term Debtors	1,381
6,770	**Long Term Assets**	6,659
33	Sundry debtors	50
811	Short-term loans	1,203
844	**Current Assets**	1,253
(1)	Short-term creditors	(2)
(1)	**Current Liabilities**	(2)
7,613	**Net Assets**	**7,910**
(116)	Financial Instruments Adjustment Reserve	(78)
(830)	Revaluation Reserve	(816)
(3,121)	Capital Adjustment Account	(3,056)
(3,546)	Common Good Fund	(3,960)
(7,613)	**Total Reserves**	**(7,910)**

Movement in Reserves Statement

For the year ended 31 March 2012	Common Good Balance (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000)	Financial Instruments Adjustment (£000s)	Revaluation Reserve (£000)	Capital Adjustment Account (£000s)	Total Common Good Reserves (£000)
Balance at 31 March 2011 carried forward	(3,546)	(3,546)	(4,067)	(116)	(830)	(3,121)	(7,613)
Movement in reserves during 2011/12							
(Surplus) or deficit on provision of services	(335)	(335)	-	-	-	-	(335)
Other Comprehensive Expenditure and Income	-	-	38	38	-	-	38
Total Comprehensive Expenditure and Income	(335)	(335)	38	38	-	-	(297)
Adjustments between accounting basis & funding basis under regulations	(79)	(79)	79	-	14	65	-
Charges for depreciation of non-current assets	(78)	(78)	78	-	13	65	-
Impairment/revaluation losses (charged to CI&ES)	(1)	(1)	1	-	1	-	-
Profit/loss on sale of non current assets	-	-	-	-	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	(414)	(414)	117	38	14	65	(297)
Transfers to/from Statutory Reserves	-	-	-	-	-	-	
Increase/Decrease in Year	(414)	(414)	117	38	14	65	(297)
Balance at 31 March 2012 carried forward	(3,960)	(3,960)	(3,950)	(78)	(816)	(3,056)	(7,910)

Trust Funds Account

The Council acts as majority or sole Trustee for 87 trusts, bequests and other funds, which are administered in accordance with the individual terms.

Comprehensive Income and Expenditure Statement

2010/11 £000s		2011/12 £000s
(47)	Operating Income	(47)
84	Operating Expenditure	42
37	**Cost of Services**	**(5)**
(23)	(Gains)/Losses on the disposal of non current assets	(14)
(66)	Financing and investment income and expenditure	(88)
-	Taxation and non specific grant income	-
(52)	**(Surplus) or Deficit on Provision of Services**	**(107)**
-	(Surplus) or deficit on revaluation of Property, Plant and Equipment	(33)
(119)	(Surplus) or deficit on revaluation of available for sale financial instruments	50
(119)	**Other Comprehensive Income and Expenditure**	**17**
(171)	**Total Comprehensive Income and Expenditure**	**(90)**

Balance Sheet

31 March 2011 £000s	Trust Funds	31 March 2012 £000s
548	Property Plant & Equipment	578
-	Heritage Assets	-
-	Assets Held for Sale	-
2,385	Long Term Investments	2,338
-	Investments in Associates	-
112	Long Term Debtors	109
3,045	**Long Term Assets**	3,025
774	Short Term Investments	869
-	Assets Held for Sale	-
-	Inventories	-
7	Short Term Debtors	1
-	Bad & Doubtful Debt Provision	-
-	Cash and Cash Equivalents	-
781	**Current Assets**	870
-	Bank Overdraft	-
-	Short Term Borrowing	-
-	Short Term Creditors	(1)
-	**Current Liabilities**	(1)
-	Long Term Creditors	-
-	Provisions	-
-	Long Term Borrowing	-
(295)	Other Long Term Liabilities	(273)
-	Capital Grants Receipts in Advance	-
(295)	**Long Term Liabilities**	(273)
3,531	**Net Assets**	**3,621**
	Called Up Share Capital	-
(1,663)	Usable Reserves	(1,770)
(1,868)	Unusable Reserves	(1,851)
(3,531)	**Total Reserves**	**(3,621)**

Movement in Reserves Statement

For the year ended 31 March 2012	Accumulated Funds (£000)	Total Usable Reserves (£000)	Unusable Reserves (£000)	Investments Available for Sale Reserve (£000s)	Property Revaluation Reserve (£000)	Total Fund Reserves (£000)
Balance at 31 March 2011 carried forward	(1,663)	(1,663)	(1,868)	(1,418)	(450)	(3,531)
Movement in reserves during 2011/12						
Surplus or (deficit) on provision of services	(107)	(107)	-	-	-	(107)
Other Comprehensive Expenditure and Income	-	-	17	50	(33)	17
Total Comprehensive Expenditure and Income	(107)	(107)	17	50	(33)	(90)
Adjustments between accounting basis & funding basis under regulations	-	-	-	-	-	-
Net Increase/Decrease before Transfers to Earmarked Reserves	(107)	(107)	17	50	(33)	(90)
Transfers to/from Earmarked Reserves	-	-	-	-	-	-
Increase/Decrease in Year	(107)	(107)	17	50	(33)	(90)
Balance at 31 March 2012 carried forward	(1,770)	(1,770)	(1,851)	(1,368)	(483)	(3,621)

1. Housing Revenue Account

Number and type of dwellings

	Stock at 1 April 2011	Sold in year	New Build	Bought in year	Other Adjust-ments	Stock at 31 March 2012
2 Apartment	1,674	(3)	11	10	1	1,693
3 Apartment	4,238	(10)	49	34	(1)	4,310
4 Apartment	2,059	(7)	65	24	3	2,144
5 Apartment	216	-	-	1	(1)	216
	8,187	(20)	125	69	2	8,363

Bad or Doubtful Debts

At the year-end, outstanding arrears totalled £2.26m (2010/11: £1.94m) or 11.0% (2010/11: 9.3%) of the rent collectable. A provision of £1.73m (2010/11: £1.47m) has been set aside in respect of uncollectable arrears.

2. Council Tax Income

The Council Tax base is calculated as follows;

	COUNCIL TAX BAND								
	A	B	C	D	E	F	G	H	Total
Charge for Each Band (£)	**745.08**	**869.26**	**993.44**	**1117.62**	**1365.98**	**1614.34**	**1862.70**	**2235.24**	
Effective Properties	944	7,726	12,779	4,980	5,277	4,206	3,352	573	39,837
Ratio to Band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	629	6,009	11,359	4,980	6,450	6,075	5,587	1,146	42,235
Provision for non-payment (2%)									(845)
Council Tax Base									**41,390**

Dwellings are valued by the Assessor and placed in a valuation band ranging from the lowest "A" to the highest "H". The Council Tax charge is calculated using the Council Tax Base i.e. Band D equivalents. The value is then decreased or increased dependent upon the band of the dwelling.

A full council tax charge assumes there are two or more adults, aged 18 or over, living in a property as their main home. If only one adult lives in a house and it is their sole or main residence, the charge may be reduced by 25%.

Charges for water and sewerage are the responsibility of Scottish Water. East Lothian Council collects total monies and makes a payment to Scottish Water on the basis of collection levels based on a pre-determined formual.

3. Non-domestic rate account

An analysis of the rateable values at the beginning of the financial year is detailed below.

	Number	Rateable Value £000
Shops, Offices and other Commercial Subjects	1,603	28,159
Industrial and Freight Transport	840	12,482
Miscellaneous (Schools etc)	832	27,394
	3,275	68,035

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 43.3p (2010/11: 41.4p) per pound for properties with rateable value of £35,000 or more and 42.6p (2010/11: 40.7p) for those with a rateable value of less than £35,000(2010/11:£35,000).

From 1 April 2011 levels of rates relief under the Small Business Bonus Scheme have been set at 100% for eligible properties with a combined Rateable Value (RV) of up to £10,000, 50% for those with a combined RV between £10,001 and £12,000 and 25% for those with a combined RV between £12,001 and £18,000. Additionally, businesses with multiple properties whose cumulative RV is £25,000 or less will be eligible for relief of 25% for each property with a rateable value less than £18,000.

4. Common Good Fund

The Common Good Funds once again operated at a surplus for the year, generating income from letting properties. Some of that income was used to maintain the assets and support events in their local communities.

Non-current Assets

The value of assets changed in the following way:

	Community Assets £000s
Net book value of assets at 31 March 2011	2,913
Movement in 2011/12	
Additions	49
Revaluations	(1)
Depreciation	(77)
Net book value of assets at 31 March 2012	**2,884**

Finance Leases

Details of Common Good Finance Leases

The proceeds from the finance lease are collected over the term of the lease, which creates a long-term debtor. The income receivable on this debt is:

	£000s
Income receivable in 2012/13	229
Income receivable between 2013/14 and 2017/18	913
Income receivable after 2018/19	6,019
	7,161

Fund Analysis

The four separate funds are valued at 31 March 2012 as:

	Dunbar £000	Hadding-ton £000	Mussel-burgh £000	North Berwick £000	Total £000
Balance brought forward on 1 April 2011	(23)	(438)	(2,923)	(162)	**(3,546)**
(Surplus)/Deficit for the year	(12)	(23)	(349)	(30)	**(414)**
Fund balance as at 31 March 2012	(35)	(461)	(3,272)	(192)	**(3,960)**
Net Assets	**1,533**	**527**	**5,364**	**485**	**7,910**

5. Trusts

In-year Financial Performance

During the year 2011/12, the Trust Funds operated at a surplus of £107,000 (2010/11: surplus of £52,000). The overall value increased from £3.531million to £3.621 million by 31 March 2012.

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.

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 2012 were:

2010/11 £000	Investment	2011/12 £000
102	UK Treasury Sep 07	103
114	Shell Ordinary Shares Eur 0.07	88
64	HSBC Holdings Ordinary Shares US $0.50	-
82	JP Morgan IT Ordinary	87
73	Vodaphone Group Ordinary Shares US $0.11	72
66	UBS Global Assets Mgt US Equity	71
-	Threadneedle Inv American Select	64
1,884	Other stocks, shares and cash	1,853
2,385	Total	2,338

Group Comprehensive Income and Expenditure Statement

The Group Comprehensive Income and Expenditure Statement shows how resources have been generated and consumed in the year in providing services across the East Lothian Group. The Group includes the Council, its associates and subsidiaries.

2010/2011 Net Expend-iture £000s		2011/2012 Gross Expend-iture £000s	Gross Income £000s	Net Expend-iture £000s
4,313	Central services	8,228	(4,504)	3,724
19,371	Cultural and related services	28,273	(4,957)	23,316
91,737	Education services	98,223	(4,834)	93,389
11,156	Environmental services	14,916	(1,175)	13,741
3,628	Housing services (non-HRA)	33,126	(28,524)	4,602
10,819	Joint Board requisitions	10,535	(354)	10,181
3,378	Local authority housing (HRA)	24,446	(20,431)	4,015
3,002	Planning & development services	4,841	(2,576)	2,265
12,688	Roads and transport services	13,216	(875)	12,341
57,860	Social Work services	69,322	(8,503)	60,819
2,006	Corporate and democratic core	2,846	(93)	2,753
-	Non-distributed costs	272	-	272
219,958	**Cost of Services**	**308,244**	**(76,826)**	**231,418**
(1,472)	(Gains)/Losses on the disposal of non current assets			(23)
(25,309)	Financing and investment income and expenditure			13,614
-	(Surplus) or deficit of discontinued operations			-
(227,622)	Taxation and non specific grant income			(232,318)
(34,445)	**(Surplus) or Deficit on Provision of Services**			12,691
(12,171)	Share of the (surplus) or deficit on the provision of services by Associates			8,446
1	Tax expenses of subsidiaries and associates			-
(46,615)	**Group (Surplus)/Deficit**			**21,137**
(7,264)	(Surplus) or deficit on revaluation of Property, Plant and Equipment			(14,295)
(1,414)	(Surplus) or deficit on revaluation of available for sale financial instruments			(573)
(22,477)	Actuarial (gains)/losses on pension assets/liabilities			17,524
(8,240)	Share of other comprehensive income and expenditure of associates.			18,128
(39,395)	**Other Comprehensive Income and Expenditure**			**20,784**
(86,010)	**Total Comprehensive Income and Expenditure**			**41,921**

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

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

2010/2011 £000s		2011/2012 £000s
(33,913)	(Surplus)/deficit for the year on the Authority Comprehensive Income & Expenditure Account	12,908
	(Surplus) deficit for the year in the Group Income & Expenditure Account attributable to group entities	
(12,170)	Associates	8,446
(532)	Subsidiaries	(217)
(46,615)	**(Surplus)/Deficit for the year on the Group Income & Expenditure Account**	**21,137**

Group Balance Sheet as at 31 March 2012

The Group Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the East Lothian Group.

31/03/2010 Restated £000s	31/03/2011 Restated £000s		31-Mar-12 £000s
659,741	691,665	Property Plant & Equipment	734,614
-	-	Heritage Assets	547
-	-	Assets Held for Sale	-
4,985	6,360	Long Term Investments	6,908
(169,289)	(148,721)	Investments in Associates	(174,961)
2,878	6,131	Long Term Debtors	8,795
498,315	555,435	**Long Term Assets**	575,903
(685)	47	Short Term Investments	(183)
519	986	Assets Held for Sale	1,145
432	496	Inventories	342
31,735	32,133	Short Term Debtors	36,787
(17,447)	(18,209)	Bad & Doubtful Debt Provision	(18,481)
1,146	13,706	Cash and Cash Equivalents	661
15,700	29,159	**Current Assets**	20,271
-	-	Bank Overdraft	(4,716)
(1,589)	(12,503)	Short Term Borrowing	(16,580)
(21,968)	(24,529)	Short Term Creditors	(21,543)
(23,557)	(37,032)	**Current Liabilities**	(42,839)
-	-	Long Term Creditors	-
(7,142)	(7,381)	Provisions	(5,680)
(203,520)	(238,718)	Long Term Borrowing	(275,926)
(197,110)	(131,959)	Other Long Term Liabilities	(144,311)
-	(650)	Capital Grants Receipts in Advance	(150)
(407,772)	(378,708)	**Long Term Liabilities**	(426,067)
82,686	**168,854**	**Net Assets**	**127,268**
-	-	Called Up Share Capital	-
(29,805)	(37,473)	Usable Reserves	(29,926)
(52,881)	(131,381)	Unusable Reserves	(97,342)
(82,686)	**(168,854)**	**Total Reserves**	**(127,268)**

Group Movement in Reserves Statement

This statement presents the movement in the year in the different reserves held by the combined Group i.e. the Council, its associate companies and subsidiaries.

For the year ended 31 March 2012	Authority's Own Usable Reserves (£000) Page 12	Authority's Share of Usable Reserves of Subsidiaries and Associates (£000)	Total Usable Reserves (£000)	Total Unusable Reserves (£000)	Authority's Own Unusable Reserves (£000) Note 30	Authority's Share of Unusable Reserves of Subsidiaries and Associates (£000)	Total Reserves (£000)
Balance at 31 March 2011	(28,997)	(8,480)	(37,477)	(131,411)	(276,835)	145,424	(168,888)
Movement in reserves during 2010/11							
(Surplus) or deficit on provision of services	12,908	8,241	**21,149**	-	-	-	**21,149**
Other Comprehensive Expenditure and Income	-	(32)	(32)	20,579	2,601	17,978	**20,547**
Total Comprehensive Expenditure and Income	**12,908**	**8,209**	**21,117**	**20,579**	**2,601**	**17,978**	**41,696**
Adjustments between Group Accounts and Authority Accounts	-	-	-	-	-	-	-
Net Increase/Decrease before Transfers	12,908	8,209	21,117	**20,579**	**2,601**	**17,978**	**41,696**
Adjustments between accounting basis & funding basis under regulations	(5,389)	(8,177)	(13,566)	13,490	5,389	8,101	(76)
Net Increase/Decrease before Transfers to Other Statutory Reserves	**7,519**	**32**	**7,551**	**34,069**	**7,990**	**26,079**	**41,620**
(Increase)/Decrease in Year)	7,519	32	7,551	34,069	7,990	**26,079**	41,620
Balance at 31 March 2012 carried forward	(21,478)	(8,448)	(29,926)	(97,342)	(268,845)	**171,503**	(127,268)

Group Cash Flow Statement

The Group Cash Flow includes the cash flows of the Council and its subsidiary companies which include East Lothian Land, the Common Goods. Trust Funds and Musselburgh Joint Racing Committee.

2010/11 £000s		2011/12 £000s
(34,445)	Net (surplus) or deficit on the provision of services	12,691
8,319	Adjustments to net surplus or deficit on the provison of services for non-cash movements (Note 5)	(31,632)
2,988	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	14,219
(23,138)	Net Cash flow from Operating Activities	(4,722)
	Investing Activities	
56,169	Purchase of property, plant and equipment	71,296
-	Purchase of investments	95
(69)	Dividends from joint ventures and associates	(103)
(615)	Proceeds from short term investments	(540)
(116)	Other Receipts from investing activities	(12,726)
(2,865)	Proceeds from the sale of property, plant and equipment	(1,174)
52,504	Net cash flow from investing activity	56,848
	Financing Activities	
(55,328)	Cash received from short and long term borrowing	(77,342)
1,380	Capital element of finance leases and PFI Contracts	1,280
9,523	Repayments of short and long term borrowing	38,328
2,499	New loans made	3,369
(41,926)	Net cash flow from financing activity	(34,365)
(12,560)	Net increase or decrease in cash and cash equivalents	17,761
(1,146)	Cash and cash equivalents at the beginning of the reporting period	(13,706)
(13,706)	Cash and cash equivalents at the end of the reporting period	4,055

Notes to the Group Financial Statements

1. 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.

2. Associates

The under noted entities along with the relative share have been treated as associate companies within the terms of the Code of Practice on Local Authority Accounting.

The Council has less than 20% of the voting or potential voting power in all three Joint Boards but has assessed that it has significant influence on account of these organisations to require inclusion in the Council's Group Accounts. This is on the basis of representation on the Joint Boards by East Lothian councillors and material transactions between East Lothian Council and the Joint Boards.

These associate companies have been incorporated in line with the draft financial statements made available to East Lothian Council.

	Percentage Share 2010/11	Percentage Share 2011/12	Carrying Value at 31 March 2012 (£000s)	Share of (Surplus) or Deficit on Provision of Services for 2011/12 (£000s)	Other CI&ES items for 2011/12 (£000s)
East Lothian Investments	40.00%	40.00%	207	(20)	-
Enjoy East Lothian Limited	33.33%	33.33%	1,911	(38)	197
Brunton Theatre Trust	40.00%	40.00%	206	24	-
Lothian Valuation Joint Board	10.99%	10.99%	-453	(25)	(19)
Lothian & Borders Police Board	8.25%	8.25%	-150,940	6,764	16,958
Lothian & Borders Fire & Rescue Board	7.77%	7.77%	-25,892	1,741	992
Total			**-174,961**	**8,446**	**18,128**

The summarised financial information of the various associates for the financial year 2011/12 has been presented below;

	Assets at the end of the year (£000s)	Liabilities at the end of the year (£000s)	Net Assets at the end of the year (£000s)	Revenues during year (£000s)	(Surplus) or Deficit for the year (£000s)
East Lothian Investments	857	(339)	518	68	(50)
Enjoy East Lothian Limited	6,457	(724)	5,733	5,566	(114)
Brunton Theatre Trust	598	(83)	515	1,002	59
Lothian Valuation Joint Board	1,586	(5,707)	(4,121)	6,441	(228)
Lothian & Borders Police Board	129,991	(1,959,572)	(1,829,581)	(229,665)	81,994
Lothian & Borders Fire & Rescue Board	52,329	(388,680)	(336,351)	47,561	22,579

Although disclosed as an associate company Enjoy East Lothian is limited in its ability to transfer financial benefits to East Lothian Council. Enjoy East Lothian Limited is a registered charity and the Memorandum of Association states that no portion of the income or assets shall be paid or transferred directly or indirectly by way of dividend, bonus or otherwise howsoever by way of profit to the members of the company.

Likewise, the Articles of Association relating to East Lothian Investments, restrict the payment or transference of income, either directly or indirectly, by way of dividend, bonus or otherwise, to members of the company.

3. Subsidiaries

The under noted entities are regarded as group subsidiary companies in line with the Code of Practice on Local Authority Accounting. For the purposes of the Group Accounts this means that the income, expenditure and annual surpluses or deficits of subsidiaries are combined within income, expenditure and annual surpluses or deficits relating to main council services.

No subsidiaries have been excluded.

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 2012 show net assets of £601,000 (2011: £618,000), and a loss before taxation of £16,000 (31 March 2011: Loss of £20,000). The company retains all accumulated profits and losses. No dividend was received. The value of East Lothian Land is included within the Council accounts at the net asset value noted above.

The annual accounts for the Common Good Funds and Trusts are included at pages 83 to 85.

The net value of the Trusts included within the Group Accounts is £3.62 million. The nature of the assets is explained in a note to the Supplementary Financial Statements on page 88. Although included as a subsidiary the Council does not expect a dividend as a result of its involvement.

In 2010 East Lothian Council, along with the Lothian's Racing Syndicate Limited agreed a revised Minute of Agreement relating to the operation of 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 may be 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. This subsidiary has been incorporated in line with the financial statements made available to East Lothian Council.

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

4. Financial Impact of Consolidation

The effect of inclusion of the associate and subsidiary companies on the Group Balance Sheet is to decrease Net Assets and Reserves by £163 million. This is almost entirely due to the inclusion of police and fire brigade pension liabilities.

5. Group Cash Flow Statement - Adjustments to net surplus or deficit on the provision of services for non-cash movements

2010/11 £000s		2011/12 £000s
(24,451)	Depreciation	(26,793)
(5,409)	Impairments and downward revaluations	(14,236)
(1,723)	Net gains on sale of fixed assets	(1,165)
26,224	Net charges made for retirement benefits in accordance with IAS 19	(10,638)
14,150	Employer's contributions payable to the Lothian Pension Fund	14,052
140	(Increase)/decrease in revenue long term-debtors & liabilities	-
(565)	Change in Provisions	1,429
66	Change in stock	(145)
1,816	Change in revenue debtors	1,308
(1,929)	Increase in revenue creditors	4,556
8,319	**Total**	**(31,632)**

ANNUAL GOVERNANCE STATEMENT

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. The Council also has a duty under the Local Government (Scotland) Act 2003 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In addition there is a duty on the Council to conduct, at least annually, a review of the effectiveness of the system of internal controls.

East Lothian Council carries out these duties in a number of ways including:

Annual Review of Corporate Good Governance

An Annual Review of Corporate Good Governance carried out by a task group which comprises the Monitoring Officer, Section 95 Officer, Chief Social Work Officer, Head of Policy and Partnerships and Internal Audit Manager.

The group assesses the extent to which the Council meets the principles and requirements of the local Code of Corporate Good Governance which was adopted by the Council in May 2010. The findings of the 2011/12 review were reported to the Council's Audit & Governance Committee in June 2012.

The group reviewed progress made against the improvement points identified in the 2011 self-evaluation and considered documentary evidence and practice around each of the supporting principles and code requirements as detailed in the local code.

As with the previous self-evaluations the 2011/12 self-evaluation has found that East Lothian Council generally has good governance and control arrangements in place across the six principles.

There were however a number of areas where improvements are required and action has been agreed. These include the;

- Promotion of the Council Plan, Vision, Mission and Focus to staff and East Lothian citizens;

- Completion of the review of Community Planning Partnership governance arrangements and structures;

- Roll out of elected members' CPD which will allow all members to participate;

- Completion of a review of Scheme of Administration and Scheme of Delegation, including the roles and responsibilities of the Council's Statutory Officers. These will be detailed into revised Standing Orders and Scheme of Administration;

- Review the reports template following on from the Review of Scheme of Administration.

Declaration of Assurance

All Chief Officers are asked to sign a Declaration of Assurance which either confirms that internal financial controls are operating satisfactorily in their service or provides details of issues which they wish to highlight.

The results of these assurances were that;

- Six Chief Officers provided assurance that, to the best of their knowledge and understanding, the Internal Financial Controls in their areas operated satisfactorily;

- Three Chief Officers provided assurance that, to the best of their knowledge and understanding, the Internal Financial Controls in their areas operated satisfactorily with the following exceptions.

  Specific tendering and procurement issues relating to property costs;

  Budgetary control within the Children & Families Group.

Internal Audit Review

ELC's Internal Audit team carry out reviews of service areas throughout the year and report their findings to the Council's Audit and Governance Committee. The agenda and minutes of this meeting can be accessed on the Council's website at;

http://www.eastlothian.gov.uk/meetings/committee/98/audit_and_governance_committee

All internal audit reports into service areas include recommendations, agreed actions and an implementation date.

The Internal Audit manager also gives an assurance statement on the effectiveness of the system of internal controls within the Council. This was reported to the June meeting of the Audit & Governance Committee. For 2011/12 the Internal Audit Manager concluded that, subject to some weaknesses outlined in the report, reasonable assurance can be placed on the adequacy and effectiveness of East Lothian Council's internal control systems for the year to 31 March 2012.

Statement on the role of the Chief Finance Officer

In 2010 the Chartered Institute of Public Finance & Accountancy (CIPFA) issued a statement on the role of the Chief Finance Officer (CFO) in public service organisations. The statement sets out the five principles that define the core activities and behaviours that are key to the role of the CFO in public sector organisations. For each principle the statement sets out the governance arrangements required within an organisation to ensure that CFOs are able to operate effectively and perform their core duties. The Council is able to confirm that, in all major regards, it conforms with the governance arrangements of the CIPFA statement.

Results

It is our opinion that reasonable assurance can be placed on the governance and control arrangements within East Lothian Council and its Group during 2011/12.

Angela Leitch	Willie Innes	Jim Lamond (CPFA)
Chief Executive	Council Leader	Head of Council Resources
27 September 2012	27 September 2012	27 September 2012

The Council paid the following amounts to Senior Councillors in the year.

Councillor Name	Responsibility	2011/2012 Salary, Fees and allowances (£)	Taxable Expenses (£)	Total Remuneration 2011-12 (£)	Total Remuneration 2010-11 (£)
Jacqui Bell	Cabinet Member for Health & Social Care (from 8 June 2010 to 16 June 2011)	4,305	553	4,858	20,994
David Berry	Leader of the Council (until 8 June 2010)	-	-	-	6,115
Ruth Currie	Cabinet Member for Community Wellbeing	20,294	1,782	22,076	21,747
Stuart Currie	Cabinet Member for Housing & Community Safety	20,294	1,606	21,900	22,194
Willie Innes	Leader of the Opposition	18,335	1,396	19,731	20,453
Roger Knox	Depute Provost	20,294	1,070	21,364	21,322
Peter MacKenzie	Cabinet Member for Education & Children's Services	20,294	2,043	22,337	21,665
Stuart MacKinnon	Cabinet Member for Economic Development & Tourism (From 25 August 2009	20,294	284	20,578	22,632
Paul McLennan	Leader of the Council (from 8 June 2010) and Cabinet Member of Health & Social Care (from 23/08/2011)	27,058	2,884	29,942	25,803
Sheena Richardson	Provost	21,294	1,468	22,762	22,332
Barry Turner	Cabinet Member for Environment	20,294	1,243	21,537	21,751
		192,756	14,329	207,085	227,007

During the year Councillors Stuart Currie and Peter MacKenzie were vice-convenors of the Lothian & Borders Fire & Rescue Board and the Lothian & Borders Police Board respectively. The current arrangements require East Lothian Council to pay the remuneration appropriate to the Councillors work with the Joint Board. This remuneration is then recovered from the Police and Fire Board.

Details of these payments can be found in the Remuneration Reports of the Joint Boards.

At its meeting of 15 May 2007 the full Council agreed the scheme for the payment of salaries for all elected members including the Leader, Civic Head and Senior Councillors.

The Council paid the following salaries, allowances and expenses to all councillors (including Senior Councillors above) during the year.

Type of Remuneration	2011/12 (£)	2010/11 (£)
Salaries	415,588	418,787
Allowances	-	-
Expenses	28,206	30,194
Total	443,794	448,981

The annual return of Councillor's salaries and expenses for 2011-12 is available to view on the Council's website at www.eastlothian.gov.uk.

Senior Officer Remuneration

The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities. Circular CO/144 sets the amount of salary for the Chief Executive of East Lothian Council for the period 2008/09 to 2011/12.

An independent review of the remuneration packages of Senior Officials was carried out during the 2009/2010 financial year and was agreed at a full meeting of the Council on 25th August 2009.

Other benefits received by senior employees include either a Chief Officials' Travel Allowance or Essential Car User Allowance. The Chief Officials' Travel Allowance has now been phased out and all senior officials now receive an annual Essential Car User Allowance of £822.

During 2011/12 the Council paid the following amounts to senior employees.

Name	Post Title	2011/2012 Salary, fees and allowances (£)	Taxable Expenses (£)	Compensation for Loss of Office (£)	Total Remuneration 2011-12 (£)	Total Remuneration 2010-11 (£)
Alan Blackie	Chief Executive (to 31/08/2011)	50,235	662	-	50,897	113,795
Angela Leitch	Chief Executive (from 14/09/2011)	56,750	43	-	56,793	-
Monica Patterson	Director of Community Services	95,469	437	-	95,906	95,927
Alex McCrorie	Director of Corporate Services	97,673	-	-	97,673	101,001
Don Ledingham	Director of Education & Childrens Services	95,169	692	-	95,861	95,880
Pete Collins	Director of Environment	97,673	-	60,000	157,673	101,001
Alan Ross	Head of Children's Services (to 17/01/2011)	-	-	-	-	71,722
Murray Leys	Head of Adult Social Care (from 19/07/2010)	83,136	1,365	-	84,501	58,992
David Spilsbury	Head of Finance	83,486	288	105,122	188,896	84,217
Jim Lamond	Head of Governance & Performance	83,364	-	-	83,364	85,813
		742,955	3,487	165,122	1,076,686	808,348

At the end of 2011/12 the Council approved a new Council structure - the result of which was a reduction in the number of Chief Officials. The figures in the table above within the 'Compensation for Loss of Office' column represent the cost of terminating the employment of those Chief Officials who also fall within the 'Senior Employees' category. The inclusion of these costs for 2011/12 explains the increase in Total Remuneration between the years.

The Council's other employees receiving more than £50,000 remuneration for the year, excluding pension contributions, were paid the following amounts.

Band	2011/12	2010/11
£50,000 - £54,999	42	47
£55,000 - £59,999	24	20
£60,000 - £64,999	4	3
£65,000 - £69,999	3	3
£70,000 - £74,999	2	2
£75,000 - £79,999	3	2
£80,000 - £84,999	4	1
£85,000 - £89,999	2	4
Total	84	82

Subsidiary Bodies

The full post title and name of the most senior manager for each of the Council subsidiary companies is as follows;

Name of Subsidiary	Title	Name of Postholder
Musselburgh Joint Racing Committee	General Manager	Bill Farnsworth
East Lothian Land	Not Applicable	Not Applicable

No councillor receives remuneration from any of the Council's subsidiary bodies.

Pension Benefits

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

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

The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

For local government employees this is a final salary pension scheme. This means that pension benefits are based on the final year's pay and the number of years that person has been a member of the scheme.

The scheme's normal retirement age for both councillors and employees is 65.

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

Whole Time Pay	Contribution Rate (%) 2010/11
Earnings up to £18,529	5.50
Earnings between £18,530-£22,264	5.60 - 5.80
Earnings between £22,265-£31,228	5.90 - 6.60
Earnings between £31,229-£40,645	6.70 - 7.30
Earnings above £40,646	7.40 - 10.80

Whole Time Pay	Contribution Rate (%) 2011/2012
Earnings up to £19,044	5.50
Earnings between £19,045-£22,877	5.60 - 5.80
Earnings between £22,878-£32,114	5.90 - 6.60
Earnings between £32,115-£41,833	6.70 - 7.30
Earnings above £41,834	7.40 - 10.80

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

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

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

The estimated pension figures shown relate to the benefits that the person has accrued as consequence of their total local government service, and not just their current appointment. These are based on information available to the Council. The Lothian Pension Fund administers these pensions and holds information that is not available to the Council at the date of this statement. Should this information become available to the Council, updated figures will be published.

Pension Benefits – Senior Councillors

The estimated pension entitlements for Senior Councillors for the year to 31 March 2012 are shown in the table below, together with he contribution made by the Council during the year.

Councillor Name	Responsibility	In-Year Pension Contributions (£) 2011/2012	In-Year Pension Contributions (£) 2010/2011		Estimated Accrued Pension Benefits (£000) At 31 March 2012	Estimated Accrued Pension Benefits (£000) Difference from 31 March 2011
Paul McLennan	Leader of the Council (from 8 June 2010) and Cabinet Member of Health & Social Care (from 23/08/2011)	5,763	5,315	Pension	2	-
				Lump Sum	2	-
Sheena Richardson	Provost	4,536	4,181	Pension	3	1
				Lump Sum	2	-
Stuart MacKinnon	Cabinet Member for Economic Development & Tourism	4,323	4,181	Pension	1	-
				Lump Sum	1	-
Barry Turner	Cabinet Member for Environment	-	-	Pension	-	-
				Lump Sum	-	-
Peter MacKenzie	Cabinet Member for Education & Children's Services	4,323	4,181	Pension	2	1
				Lump Sum	2	-
Roger Knox	Depute Provost	4,323	4,181	Pension	2	-
				Lump Sum	2	-
David Berry	Leader of the Council (until 8 June 2010)	-	3,758	Pension	-	-
				Lump Sum	-	-
Stuart Currie	Cabinet Member for Housing & Community Safety	-	-	Pension	-	-
				Lump Sum	-	-
Ruth Currie	Cabinet Member for Community Wellbeing	4,323	4,181	Pension	2	-
				Lump Sum	2	-
Jacqui Bell	Cabinet Member for Health & Social Care (from 8 June 2010 to 16 June 2011)	3,642	4,025	Pension	1	-
				Lump Sum	1	-
Willie Innes	Leader of the Opposition	4,118	3,777	Pension	1	1
				Lump Sum	1	-
		35,351	37,780		27	3

Pension Benefits – Senior Employees

The estimated pension entitlements for Senior Employees for the year to 31 March 2012 are shown in the table below, together with the contribution made by the Council during the year.

Name	Post Title	In-Year Pension Contributions (£) 2011/2012	2010/2011		Estimated Accrued Pension Benefits (£000) At 31 March 2012	Difference from 31 March 2011
Alan Blackie	Chief Executive (to 31/08/2011)	23,170	22,408	Pension	55	1
				Lump Sum	153	-
Alan Blackie	Returning Officer	852	612	Pension	-	-
				Lump Sum	-	-
Angela Leitch	Chief Executive (from 14/09/2011)	12,008	-	Pension	33	-
				Lump Sum	95	-
Monica Patterson	Director of Community Services	20,096	19,435	Pension	36	2
				Lump Sum	94	-
Alex McCrorie	Director of Corporate Services	20,096	19,435	Pension	50	2
				Lump Sum	135	-
Don Ledingham	Director of Education & Childrens Services	14,058	14,058	Pension	37	-
				Lump Sum	112	11
Pete Collins	Director of Environment	20,096	19,435	Pension	43	2
				Lump Sum	116	-
Alan Ross	Head of Children's Services (to 17/01/2011)	-	13,458	Pension	-	-
				Lump Sum	-	-
Murray Leys	Head of Adult Social Care (from 19/07/2010)	17,533	11,947	Pension	2	1
				Lump Sum	-	-
David Spilsbury	Head of Finance	17,533	16,957	Pension	27	1
				Lump Sum	69	-
Jim Lamond	Head of Governance & Performance	16,436	15,896	Pension	30	1
				Lump Sum	78	-
		161,878	153,641		1,165	21

Exit Packages

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below.

Cost Band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12 £000s	2010/11 £000s
£0 - £20,000	12	52	1	-	12	52	96	282
£20,001 - £40,000	-	-	3	-	3	-	81	0
£40,001 - £60,000	-	-	1	-	1	-	54	0
£60,001 - £80,000	-	-	1	-	1	-	66	0
£80,000 - £100,000	1	-	-	-	2	-	171	0
£100,001 - £120,000	-	-	-	-	-	-	0	0
£120,001 - £140,000	1	-	1	-	2	-	271	0
£260,001 - £280,000			1		1		265	-
Total	14	52	8	-	22	52	1,004	282

Angela Leitch	Willie Innes	Jim Lamond (CPFA)
Chief Executive	Council Leader	Head of Council Resources
27 September 2012	27 September 2012	27 September 2012

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

We have audited the financial statements of East Lothian Council and its group for the year ended 31 March 2012 on pages 9 to 98. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 (the 2011-12 Code).

This report is made solely to the members of East Lothian Council and the Accounts Commission for Scotland, in accordance with Part VII of the Local Government (Scotland) Act 1973. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than East Lothian Council and the Accounts Commission for Scotland, for this report, or the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of Responsibilities on page 6 the Chief Financial Officer is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non- financial information in the statement of accounts to identify material misstatements or inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the group and of the body as at 31 March 2012 and of its expenditure and income for the year then ended;

- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12
- have been prepared in accordance with the requirements of the Local Government (Scotland) act 1973 and the Local Government Scotland Act 2003.

Opinion on other matters prescribed by the Local Government (Scotland) Act 1973

In our opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Local Authority Accounts (Scotland) Regulations 1985; and
- the information given in the Explanatory Foreward by the Responsible Financial Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Local Government (Scotland) Act 1973 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Annual Governance Statement does not comply with Delivering Good Governance in Local Government; or
- there has been a failure to meet a prescribed financial objective.

S. Reid

S Reid

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG

28 September 2012.