EAST LOTHIAN COUNCIL

STATEMENT OF ACCOUNTS

2007/08

CONTENTS

FOREWORD

Welcome to the Council's accounts for 2007/08. I hope you find these to be an understandable guide to the most significant financial matters that have arisen over the year for the Council. In writing this foreword for you it is not my intention to comment on the policies of the authority, rather to explain the financial facts that should help you form your own view.

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

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

- Income and Expenditure Account: this outlines the financial performance of the Council in 2007/08 (1 April 2007 to 31 March 2008)
- Balance Sheet: this details the net worth of the Council at 31 March 2008 after taking into account the performance for the year shown in the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses
- Statement of Total Recognised Gains and Losses, which itemises changes in net worth including those that are not recorded in the Income and Expenditure Account
- Cash Flow Statement: this provides another way of looking at the performance for the year removing the accrual of income and expenditure (see Accounting Policy 2) and showing how the cash in and out of the Council has affected the opening and closing cash position
- Statement of Movement on the General Fund Balance: the statutory accounting requirements that the Council must follow are sometimes different from the Accounting Standards that we are also required to follow. When this happens statutory requirements take precedence, which means we then have to reconcile the Income and Expenditure Account prepared under Accounting Standards with the statutory position.

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

Performance compared to budget

As I mentioned above, we present these accounts in accordance with the relevant accounting standards although our financial position is fundamentally determined by statute, which is not always consistent with those standards. This makes interpreting the financial results more complicated.

On page 17 the Income and Expenditure Statement indicates that the Council operated at a deficit for the year of £1.86m. But statute requires that further adjustments of £4.95m be made, resulting in a statutory surplus for the year of £3.09m as shown on page 18. These two conflicting interpretations of financial results arise mainly from the absence of depreciation in statutory accounts. Depreciation is the accounting tool used to reflect the use of assets that have a long-life, based on the idea that those assets need to be sustained in the long-term. The accounting standards deficit suggests that the Council is not devoting enough of the resources it has to the long-term sustenance of its services.

In statutory terms the final results for 2007/08 are broadly in line with the forecasts made in public financial reports made throughout the year. In particular, this year we have seen spending in excess of budget in areas such as Adult Social Care (£788,000), Homelessness (£469,000), Community Partnerships (£188,000) and Landscape & Countryside (£164,000). By contrast, there are significant under spends on corporate budgets and both the Education and Environment departments finished the financial year within budget.

One feature of 2007/08 has been the exposure of the Council to growing cost pressures. In common with households and businesses, our bill for energy costs has risen significantly. Although we anticipated some of this – by setting aside a corporate provision as part of the budget – we still found that the amount we paid out for fuel and energy (£3.93 million) was significantly more than the budget (£3.69 million).

More specific to East Lothian Council during 2007/08 was the need to respond to social care contract issues at Cockenzie House and the Council decision to transfer residents to a refurbished facility at Greenfield Park at a cost of £300,000.

In setting the 2007/08 budget, £4.7m was set aside to meet the costs of 'Single Status'. The introduction of 'Single Status' was delayed until 1st June 2008 and accordingly no call was made on this fund during the year, and this is the main reason for the statutory surplus for the year.

Another positive feature in 2007/2008 was in relation to Council Tax. At the start of the year the Council budgeted to receive £43.2 million in council tax receipts. Due to the numbers of new houses constructed in the County during the year and improved debt collection, the final figure reported as collected in these accounts is £45.0 million.

Again on the positive side, as a result of delays on some capital projects, proactive treasury management activities and some unexpected capital receipts the Council ended the year spending £2.2 million less than budget in relation to debt charges.

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.

In its third year of operation Property Maintenance has continued its previous good performance and has generated a surplus of £218,000. This means that at the end of the first review period it has a cumulative surplus of £357,000 and has comfortably exceeded the statutory financial target.

However the other trading operations struggled during 2007/08. Roads Services posted an annual loss of £126,000, although when this result is added to the results of the previous two years Roads Services still has a cumulative surplus of £61,000 and has met the statutory financial target.

The Sportplus Trading Operation ended the year with a deficit of £53,000. These financial results for 2007/08 mean that this STO has a cumulative deficit of £706,000 going into 2008/2009. Given the scale of this deficit and the current market conditions for energy it will be a number of years before this STO reaches the statutory financial target.

Facility Services has continued the progress made in 2006/07 and has generated a surplus of £182,000 for the year. However, in 2005/2006 this STO incurred a significant deficit caused by 'one-off' costs relating to equal pay. The results over the past two years have had some effect in reversing this position and this STO now has a cumulative deficit of £168,000.

Council Housing (Housing Revenue Account)
The main items of note in relation to the Housing Revenue Account (HRA) for the year is that after the transfer of balances to General Services of £1,976,000 there remains a further surplus of £880,000 mainly as a result of lower than planned debt charges, and some savings on repair costs. This balance will be retained within the HRA and will be factored into future budgets.

Group Accounts
The group accounts brings together the finances of the Council with its subsidiary organisations to provide a wider overview of the financial position. The most striking aspect of the group position is that the net worth of the group at 31 March 2008 (£377.8m) is less than the net worth of the Council (£469.0m). This is mainly due to the pensions liability associated with the Police Service and indicates that future East Lothian taxpayers are exposed to broader financial liabilities in the future than are apparent from the Council accounts alone. In this example, we can expect the pensions liability to place increased pressure on the future requisitions made by the Police Joint Board on East Lothian Council.

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

The current position is that the Council's pension liability has been assessed as being £21.4m at 31 March 2008. This is a significant improvement on the position a year ago (liability £52.6m). The change is mainly due to changes in the assumptions used by the actuary to assess future liabilities, which once again demonstrates just how volatile the pensions liability calculation actually is.

Despite the large swings in the reported position of the pension liability, the underlying position is unchanged. In the long-term, the liability will continue to be measured and monitored, with the required changes made to the cash contributions the Council makes to the Pension Fund as part of an assessment made by an independent actuary every 3 years. Changes are being introduced to the pension fund from April 2009, but this management process will be continued.

Change in Accounting Policies

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

Capital Investment Plans

In 2007/08, we invested £49.9m in service delivery within East Lothian, which is slightly more than the previous year (£47.2m). The Council plans to continue this level of investment in future years.

We usually finance capital investment by using long-term borrowing, although investment in our 6 secondary schools has been delivered through a PPP. During 2006/07 long-term borrowing increased significantly to £175.6m. This financed the 2006/07 capital investments, provided the finance for investment in 2007/08 and scope to repay some higher interest rate debt. We chose to borrow earlier than we normally would within the 3-year planning cycle as we anticipated the increase in interest rates during 2007/08. Due to the repayment of some debt, long-term debt reduced in 2007/08 to £165.1m.

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

The Year in Summary

2007/08 was another year in which the Council managed to successfully cope with immediate expenditure pressures on some services and types of costs by improving corporate financial performance. But the Income and Expenditure Account deficit raises some questions about the long-term.

Alex McCrorie
Executive Director of Corporate Services
24 June 2008

Statement of Accounting Policies

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2007/08 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2007 – A Statement of Recommended Practice (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2. Accruals of Income and Expenditure

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

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

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

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

- Interest payable on borrowings and receivable on investments is accounted for 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.

3. Provisions

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

Provisions are charged to the appropriate service revenue account in the year that the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

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

4. Reserves

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

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

5. Government Grants and Contributions (Revenue)

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

6. Retirement Benefits

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

- The Teachers' Pension Scheme, administered by the Scottish Public Pensions Agency (SPPA)
- The Local Government Pensions Scheme, administered by 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 – mid-market value
- Unquoted securities – professional estimate
- Unitised securities – average of the bid and offer rates
- Property – market value.

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

- Current service cost – the increase in liabilities as a result of the years of service earned this year – allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
- Interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to Net Operating Expenditure in the Income and Expenditure Account
- Expected return on assets – the annual investment return on the fund assets attributable to the Council, based on an average of the expected

long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account

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

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

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

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

Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. 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.

7. VAT

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

8. Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2007 (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

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

These two cost categories are defined in BVACOP and accounted for as separate headings in the Income and Expenditure Account, as part of Net Cost of Services.

9. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year.

The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits. IT software is depreciated using a straight-line allocation over 3 years.

10. Tangible Fixed Assets

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

Recognition: expenditure of over £6,000 on the acquisition, creation or enhancement of any tangible fixed asset is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

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

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

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

- Infrastructure assets and community assets – depreciated historical cost.

Net current replacement cost is assessed as:

- Non-specialised operational properties – existing use value

- Specialised operational properties – depreciated replacement cost
- Investment properties and surplus assets – market value.

Assets included in the Balance Sheet at current value are re-valued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

- Where attributable to the clear consumption of economic benefits – the loss is charged to the relevant service revenue account
- Otherwise – written off against any revaluation gains attributable to the relevant asset in the Revaluation Reserve, with any excess charged to the relevant service revenue account.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains 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 Fund. They are used for new capital investment or to meet the cost of debt repayments. Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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

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

Deprecation is calculated on the following bases:

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

Where an asset has major components with different estimated useful lives, these 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.

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

11. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- Amortisation of intangible fixed assets attributable to the service.

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

12. Leases

Finance Leases

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

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

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

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

Operating Leases

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

13. Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. 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 Income and Expenditure Account 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 Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio 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 Income and Expenditure Account 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 Income and Expenditure Account, 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 Income and Expenditure Account compared to the net charge required against the General Fund Balance. This difference is managed by a transfer to the Financial Instruments Adjustment Account made through the Statement of Movement on the General Fund Balance.

14. 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 initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account 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 Income and Expenditure Account 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 the Income and Expenditure Account.

Any gains and losses that arise on derecognition of the asset are credited/debited to the Income and Expenditure Account.

Unquoted equity investment at cost

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 Income and Expenditure Account 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 Income and Expenditure Account.

Any gains and losses that arise on derecognition of the asset are credited or debited to the Income and Expenditure Account.

Instruments Entered Into Before 1 April 2006

The Council entered into one financial guarantee that is not accounted for as a financial instrument. This guarantee is disclosed as a separate contingent liability note.

15. Stocks and Work in Progress

Stocks 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.

Work in progress is accounted for using monthly, certified work valuations that are charged to the capital asset when the payment is made to the supplier. Due to the timing of these valuations, this leaves no significant work in progress to be shown on the balance sheet. The difference between this practice and that recommended has no significant or material effect on the financial statements.

16. Interests in Companies and Other Entities

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

17. Public Private Partnership (PPP) Contracts

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

Prepayments

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

Residual Interests

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

Statement of Responsibilities for the Statement of Accounts

The authority's responsibilities

The authority is required to:

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

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

The Chief Finance Officer's responsibilities

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

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

- Selected suitable accounting policies and then applied them consistently

- Made judgments and estimates that were reasonable and prudent

- Complied with the Code of Practice

- Kept proper accounting records which were up to date

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

The Chief Finance Officer's Certification

I certify that the Statement of Accounts presents fairly the financial position of the authority at 31 March 2008 and its income and expenditure for the year ended 31 March 2008.

Alex McCrorie
Executive Director of Corporate Services
24 June 2008

Income and Expenditure Account

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

Restated Previous Year Net Expenditure £000s		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
1,481	Central services	15,170	(13,068)	2,102
16,120	Cultural and related services	22,678	(5,479)	17,199
74,647	Education services	94,726	(15,385)	79,341
8,328	Environmental services	11,244	(2,237)	9,007
2,521	Housing services (non-HRA)	23,562	(21,329)	2,233
11,690	Joint Board requisitions	11,765	-	11,765
5,383	Local authority housing (HRA)	22,280	(17,342)	4,938
1,914	Planning & development services	3,688	(1,836)	1,852
8,065	Roads and transport services	14,756	(5,957)	8,799
39,431	Social Work services	58,317	(16,816)	41,501
1,953	Corporate and democratic core	2,264	(2)	2,262
(3,335)	Non-distributed costs	130	-	130
168,198	**Net Cost of Services**	**280,580**	**(99,451)**	**181,129**
(3,116)	Gains on the disposal of fixed assets			(4,810)
8,117	Interest payable and similar charges			8,319
(1,199)	Interest and investment income			(1,488)
(1,626)	Pensions interest cost and expected return on pensions assets			(1,943)
170,374	**Net Operating Expenditure**			181,207
(43,150)	Council tax			(44,991)
(11)	Community charge arrears			(15)
(93,760)	General government grants			(100,837)
(33,967)	Non-domestic rates redistribution			(33,509)
(514)	**(Surplus)/Deficit for the Year**			**1,855**

Statement of Movement on the General Fund Balance

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

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

Previous Year £000s		Current Year £000s
(514)	(Surplus)/Deficit for the year on the Income and Expenditure Account	1,855
(2,059)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(4,946)
(2,573)	Increase in General Fund Balance for the Year	(3,091)
(3,158)	General Fund Balance brought forward	(5,731)
(5,731)	General Fund Balance carried forward	(8,822)

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

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

Statement of Total Recognised Gains and Losses

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

Previous Year £000s		Current Year £000s
(514)	(Surplus)/Deficit for the year on the Income and Expenditure Account	1,855
(176,586)	Net surplus arising on revaluation of fixed assets	(73)
-	Net surplus arising on revaluation of available-for-sale financial assets	(1,220)
(24,126)	Actuarial (gains) /losses on pension fund assets and liabilities	(28,971)
(201,226)	Total recognised gains for the year	(28,409)
	Prior period adjustments	
-	Deficit arising from the revaluation of interest on stepped loans prior to 1 April 2007	343
(201,226)	Total change in balance sheet value	(28,066)

Balance Sheet as at 31 March 2008

Restated 31 March 2007 £000s			31 March 2008 £000s
	Fixed assets		
215	**Intangible fixed assets** (Note 18)		1,105
	Tangible fixed assets		
	Operational assets: (Note 11)		
221,418	Council dwellings	222,133	
332,290	Other land and buildings	357,851	
5,861	Vehicles, plant, furniture and equipment	6,970	
41,598	Infrastructure assets	41,407	
8,168	Community assets	9,015	
	Non-operational assets: (Note 11)		
19,264	Investment properties	17,086	
9,330	Assets under construction	3,872	
967	Surplus assets held for disposal	1,004	659,338
639,111	**Total fixed assets**		660,443
1,000	Long-term investments (Note 21)		2,220
40,707	Long-term debtors (Note 29)		40,738
680,818	**Total long-term assets**		703,401
	Current assets		
421	Stocks and work in progress	423	
32,184	Short-term loans (note 30)	12,274	
39,006	Debtors (note 31)	35,753	
(22,131)	Bad and doubtful debt provision (note 31)	(19,810)	
9,382	Cash and bank	3,290	
			31,930
739,680	**Total assets**		735,331
	Current liabilities		
(4,997)	Borrowing repayable on demand or within 12 months (note 21)	(6,849)	
(21,437)	Creditors (note 32)	(23,052)	
			(29,901)
713,246	**Total assets less current liabilities**		705,430
	Long-term liabilities		
(175,563)	Borrowing repayable within a period in excess of 12 months (note 21)		(162,637)
(1,711)	Provisions (note 22)		(2,042)
(36,299)	Government grants and other contributions deferred (note 33)		(43,333)
(6,224)	Deferred liabilities (note 34)		(7,040)
(52,554)	Liability related to defined benefit pension scheme (note 28)		(21,417)
440,895	**Total assets less liabilities**		468,961
	Financed by:		
-	Revaluation Reserve (note 23)		(1,143)
-	Available-for-sale Financial Instruments Reserve (note 23)		(1,220)
(488,467)	Capital Adjustment Account (note 23)		(479,263)
5,116	Financial Instruments Adjustment Account (note 23)		5,351
52,554	Pensions Reserve (note 28)		21,417
(2,941)	Capital Fund (note 23)		(2,941)
(926)	Insurance Fund (note 23)		(960)
(500)	Housing Revenue Account Balance		(1,380)
(5,731)	General Fund Balance		(8,822)
(440,895)	**Total net worth**		(468,961)

The unaudited accounts were issued on 24 June 2008 and the audited accounts were authorised for issue on 30 September 2008.

Alex McCrorie
Executive Director of Corporate Services
24 June 2008

Cash Flow Statement

Previous Year £000s		Current Year £000s	£000s
	Revenue Activities		
	Cash outflows		
117,518	Cash paid to and on behalf of employees	120,973	
96,441	Other operating cash payments	91,890	
7,019	Housing Benefit paid out	7,355	
11,802	Requisitions paid	11,845	232,063
	Cash inflows		
(8,356)	Rents (after rebates)	(8,442)	
(42,591)	Council Tax receipts	(45,171)	
(34,372)	Non-domestic rate receipts	(33,304)	
(93,760)	Revenue Support Grant	(100,837)	
(14,734)	DSS grants for benefits	(15,641)	
(25,192)	Other government grants	(23,922)	
(12,302)	Cash received for goods and services	(11,149)	
(19,380)	Other operating cash receipts	(12,594)	(251,060)
(17,907)	Net cash inflow from revenue activities		(18,997)
	Dividends from joint ventures and associates		
	Cash inflows		
(86)	Dividends received		(120)
	Returns on Investments and Servicing of Finance		
	Cash outflows		
8,504	Interest paid	8,983	
-	Interest element of finance leases	132	
	Cash inflows		
(1,097)	Interest received	(1,722)	7,393
	Capital Activities		
	Cash outflows		
47,806	Purchase of fixed assets	44,021	
	Cash inflows		
(6,843)	Sale of fixed assets	(10,259)	
(7,395)	Capital grants received	(8,791)	24,971
22,982	**Net cash (inflow)/outflow before financing**		13,247
	Management of Liquid Resources		
24,321	Net increase/decrease in short-term deposits	(19,909)	
	Financing		
	Cash outflows		
46,324	Repayments of amounts borrowed	24,584	
-	Capital element of finance leases	96	
999	New loans made	58	
	Cash inflows		
(105,971)	New long-term loans raised	(10,000)	
-	New short-term loans	(1,984)	(7,155)
(11,345)	**Net (increase)/decrease in cash**		6,092

1. Explanation of prior period adjustments

In the 2007/08 Statement of Accounts, the Council has adopted three significant new accounting policies that impact on the comparative figures for 2006/07 in the Income and Expenditure Account and Balance Sheet:

- Changes in the presentation of Corporate and Democratic Core and Non-distributed costs have led to a change in the Net Cost of Services shown in the Income and Expenditure Account
- Changes in how any premium or discount arising from early repayment of debt are presented differently in the Balance Sheet
- Similarly, presentational changes are made in the reserves connected to Fixed Assets.

These changes have had the following impact on the comparative figures for 2006/07 compared with those published in the 2006/07 Statement of Accounts (only figures that have changed are included in the table):

Income and Expenditure Account	Income and Expenditure Account in 2006/07 Statement of Accounts £000s	Changed Net Cost of Services Analysis £000s	2006/07 comparatives in the Income and Expenditure Account £000s
Central services	3,434	(1,953)	1,481
Corporate and democratic core	-	1,953	1,953
Non-distributed costs	-	(3,335)	(3,335)
Impact on Net Cost of Services	3,434	(3,335)	99
Non-distributed costs	(3,335)	3,335	-
Impact on Net Operating Expenditure	99	-	99

Balance Sheet	Balance Sheet in 2006/07 Statement of Accounts £000s	Changed classification of debt premium and reserves £000s	2006/07 comparatives in the Balance Sheet Account £000s
Deferred premiums on the early repayment of debt	5,116	(5,116)	-
Impact on Total Assets less Liabilities	5,116	(5,116)	-
Capital Financing Account	(129,424)	129,424	-
Fixed Asset Restatement Account	(359,043)	359,043	-
Capital Adjustment Account	-	(488,467)	(488,467)
Financial Instruments Adjustment Account	-	5,116	5,116
Impact on Total Net Worth	(488,467)	5,116	(483,351)

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

Restated Previous Year £000s		Current Year £000s	
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
(18,524)	Depreciation and impairment of fixed assets	(20,776)	
2,965	Housing Revenue Account Surplus/(Deficit)	2,856	
(27)	Deferred asset written down	(27)	
1,402	Government Grants Deferred amortisation	1,847	
3,116	Net gains on sale of fixed assets	4,810	
-	Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under statutory provisions relating to finance leases, stepped loans and premiums and discounts on the early repayment of debt	(53)	
(6,493)	Net charges made for retirement benefits in accordance with FRS 17	(8,873)	
(17,561)			**(20,216)**
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
5,155	Loans fund principal repayments and statutory premia	6,134	
-	Capital expenditure charged in-year to the General Fund Balance	39	
10,203	Employer's contributions payable to the Lothian Pension Fund	11,039	
15,358			**17,212**
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year		
2,934	Transfer to/(from) the Capital Fund	-	
(2,965)	Transfer to/(from) the Housing Revenue Account Balance	(1,976)	
175	Transfer to/(from) the Insurance Fund	34	
144			**(1,942)**
(2,059)	**Net additional amount required to be credited to the General Fund Balance for the year**		**(4,946)**

3. Trading Operations

The Council has established 4 trading operations where the service manager is required to operate in a commercial environment and meet their unit's costs by generating income from other parts of the authority or other organisations. Each operation is obliged under statute to achieve break-even over a rolling three-year period. Two of the units where set up in 2003/04 and were first assessed against the statutory target at the end of 2005/06. The other two operations started in 2005/06 and are assessed on this basis at the end of 2007/08 for the first time.

On 8th February 2007 the Council agreed that from 2007/2008 onwards the significance criteria for defining Trading Operations should be set at Turnover being at least 1% of Council net expenditure met from government grant and council tax payers. As a result of this decision Investment Property ceased to be a trading activity from the beginning of the 2007/2008 financial year.

Facility Services

The Facility Services Trading Operation provides catering, janitorial and cleaning services at locations owned or managed by the Council. A catering service is provided at secondary and primary schools and at some other buildings. The cleaning operation provides a regular building cleaning service to all departments of the Council. The cumulative position over the three years is a deficit of £168,000. This is almost entirely due to an exceptional item of back dated pay provision of £460,000 within the 2005/2006 financial year. If this element were excluded from the figures below this trading operation would have a surplus of £292,000 over the three-year period.

	2007/08 £000s	2006/07 £000s	2005/06 £000s
Turnover	7,427	6,811	7,077
Surplus/(Deficit)	182	33	(383)
3-year Cumulative Surplus/(Deficit)	(168)		

Sportplus

Sportplus manages the Council's leisure service. This includes a number of sports centres, swimming pools and sports pitches. The cumulative position at the end of 2007/2008 is a deficit of £706,000 over the three years. This deficit arises for a number of reasons including an exceptional item of back dated pay provision in the 2005/06 financial year of £216,000, difficulties this trading operation had during 2005/2006 and 2006/2007 in meeting the income targets set for it and the more recent increases in energy costs. The Council had planned to transfer the operation and management of the Council's leisure services to a not for profit company during the 2007/2008 financial year. Although the transfer did not happen during the year, the Council is continuing to review the options open for the efficient delivery of leisure management services.

	2007/08 £000s	2006/07 £000s	2005/06 £000s
Turnover	4,647	4,039	4,182
Surplus/(Deficit)	(53)	(288)	(365)
3-year Cumulative Surplus/(Deficit)	(706)		

Property Maintenance

Property Maintenance provides property maintenance services. The majority of work is undertaken on the Council's housing stock. This trading operation has now been operating for three years. After a deficit in its first year the results of the trading operation have improved since 2006/2007. The cumulative position over the first two years is now a surplus of £357,000.

	2007/08 £000s	2006/07 £000s	2005/06 £000s
Turnover	8,687	8,522	8,179
Surplus/(Deficit)	218	282	(143)
3-year Cumulative Surplus/(Deficit)	357		

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. A loss was made in 2007/2008 as a result of difficulties with a large contract. However, over the three-year period the service still has a cumulative surplus of £61,000 and has met the statutory target.

	2007/08 £000s	2006/07 £000s	2005/06 £000s
Turnover	5,143	5,697	4,981
Surplus/(Deficit)	(126)	219	(32)
3-year Cumulative Surplus/(Deficit)	61		

4. Expenditure on publicity

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

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

Expenditure was as follows:

	2007/08 £000s	2006/07 £000s
Arts & Heritage	11	11
Corporate Publicity	30	26
Councillors' Surgeries	28	21
Healthy Living	8	16
Other Advertising	34	8
Total	111	82

5. Agency income and expenditure

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

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

6. Local Authority (Goods and Services) Act 1970

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

7. Members' allowances

In 2007/08, £0.53m (2006/07: £0.44m) was paid as Councillors' salaries, including allowances, travel, subsistence and conference expenses.

8. Officers' remuneration

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

Band	2007/08 £000s	2006/07 £000s
£110,000-119,999	-	1
£100,000-109,999	1	-
£90,000 - £99,999	4	3
£80,000 - £89,999	5	4
£70,000 - £79,999	6	7
£60,000 - £69,999	7	6
£50,000 - £59,999	27	29
Total	50	50

9. Related parties

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

Central government has effective control over the general operations of the Council. It is responsible for providing the statutory framework within which the Council operates, provides the majority of it's funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out in a note relating to the Cash Flow Statement.

Members of the Council have direct control over the Council's financial and operating policies. During 2007/08, no works and services were commissioned from companies in which members had an interest. In addition, the Council paid grants and contributions totalling £15.4m to voluntary and statutory organisations (including Joint Boards) in which 23 members had an interest. The grants were made with proper consideration of declarations of interest. The relevant members did not take part in any discussion or decision relating to the grants. Details of all these interests are recorded for each Councillor in their Register of Interests, open to public inspection at www.eastlothian.gov.uk - go to Home>East Lothian Council>Who is my Councillor.

Senior officers of the Council have significant control and influence over the Council's financial and operating policies. During 2007/08, no works or services were commissioned from companies in which senior officers had an interest. The Council paid grants totalling £1.4m to voluntary organisations in which 11 senior officers had an interest. All of these organisations are included in the above note for Members of the Council. The grants were made with proper consideration of declarations of interest. The relevant officers did not take part in any discussion or decision relating to the grants.

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

10. Audit costs

Audit Scotland has been appointed as the Council's auditor by the Accounts Commission and requisitioned a fee of £0.28m (2006/07: £0.25m) from the Council to recover their costs.

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

11. Capital expenditure and fixed asset disposals

Operational assets

	Council dwellings	Other land and buildings	Vehicles, plant, etc	Infra-structure	Comm-unity assets	2007/08 Total	2006/07
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Net book value of assets at 31 March 2007	221,418	332,290	5,861	41,598	8,168	609,335	416,083
Movement in year							
Additions	13,247	20,607	3,699	4,002	1,936	43,491	39,220
Disposals	(3,426)	-	-	-	-	(3,426)	(3,727)
Revaluations	-	850	-	-	(800)	50	176,248
Depreciation	(9,106)	(5,166)	(2,585)	(3,263)	(205)	(20,325)	(18,489)
Internal Transfers	-	9,270	(5)	(930)	(84)	8,251	-
Net book value of assets at 31 March 2008	222,133	357,851	6,970	41,407	9,015	637,376	609,335

Non-operational assets

	Investment properties	Assets under construction	Surplus assets held for disposal	2007/08 Total	2006/07
	£000s	£000s	£000s	£000s	£000s
Net book value of assets at 31 March 2007	19,264	9,330	967	29,561	21,463
Movement in year					
Additions	420	1,319	1,869	3,608	7,760
Disposals	-	-	(2,044)	(2,044)	-
Revaluations	23	-	-	23	338
Depreciation	-	-	-	-	-
Internal Transfers	(2,621)	(6,777)	212	(9,186)	-
Net book value of assets at 31 March 2008	17,086	3,872	1,004	21,962	29,561

Capital expenditure and financing

	2007/08 £000s	2006/07 £000s
Gross Capital Expenditure		
Intangible Assets	406	250
Operational assets	43,491	39,220
Non-operational assets	3,608	7,760
	47,505	47,230
Gross Capital Income		
Capital receipts	(10,281)	(6,837)
Government grants and other contributions	(8,881)	(8,971)
	(19,162)	(15,808)
Sums set aside from revenue	(39)	-
Finance leases	(1,130)	-
Debt finance	(27,174)	(31,422)
Gross Capital Financing	(47,505)	(47,230)

12. Commitments under capital contracts

As at 31st March 2008, the Council had the following major contracts in place and was committed to expenditure as detailed below.

	£000s
Tranent North Primary School	2,228
Alterations and Extensions at Prestonpans Primary School	2,115
Housing Development Delta Drive & Macbeth Moir Rd	1,710
Housing Development at Monkrigg, Haddington	1,063
Council House Re-roofing Works	750
Fire Risk Assessment Works at Various Sites	250
Dunbar Town House Refurbishment	199
Environmental Improvements - Phase 2 at Riverside Drive,	185
Tranent South Primary School	137
First Step Nursery	120
Sports Changing Facilities at Pinkie St Peters Primary	114
Council House Extensions	108
St Martin's Primary Alterations & Refurbishment	100
	9,079

13. Information on assets held

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

Council dwellings	8,090	**Infrastructure assets**	
Operational buildings		Roads	20
Council offices	25	Other	20
Libraries and museums	13		
Halls	12	**Community assets**	
Community and sports centres	28	Parks	94
Social work facilities	26	Play areas	81
Public toilets	30	Cemeteries	34
Waste facilities	2	Harbours and historic buildings	22
Depots and stores	22	Walkways	18
Secondary schools (land)	6	Civic valuables (items)	23
Pre-5 schools	4	Other	36
Primary schools	35		
Other	4	**Non-operational assets**	
		Commercial offices & shops	49
Vehicles and Plant		Leased stores and workshops	72
Vehicles and Plant	94	Other	68

14. Assets held under lease

Operating leases

Authority as Lessee

Vehicles and Plant - the authority uses vehicles and plant financed under the terms of an operating lease. The amount paid under these arrangements in 2007/08 was £1.99m (2006/07: £2.56m). The SORP requires charges to be made evenly throughout the period of the lease.

The authority was committed at 31 March 2008 to making future payments of £1.951m under operating leases, comprising the following elements:

	Vehicles, Plant and Equipment £000s
Leases expiring in 2008/09	347
Leases expiring between 2009/10 and 2013/14	1,564
Leases expiring after 2013/14	40

Finance leases

Authority as Lessee

Land and Buildings – the authority has 3 leases lasting between 21 and 40 years on land and administrative buildings, which have been accounted for as finance leases. The rentals payable in 2007/08 were £228,000 (2006/07: £0) – accounted for as £132,000 finance costs and £96,000 write-down of obligations. These assets have been leased from Common Good.

The following values of assets are held under finance leases by the authority, accounted for as part of Tangible Fixed Assets:

	Other Land and Buildings £000s
Value at 1 April 2007	-
Additions	1,932
Revaluations	-
Depreciation	(62)
Disposals	-
Value at 31 March 2008	1,870

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2008, accounted for as part of long-term liabilities, are as follows:

	Other Land and Buildings £000s
Obligations payable in 2008/09	96
Obligations payable between 2009/10 and 2013/14	479
Obligations payable after 2013/14	459
Total liabilities at 31 March 2008	1,034

15. Assets recognised under a PPP arrangement

During 2002/03 the Council entered into a long-term partnership with Innovate East Lothian Ltd for the provision of enhanced secondary school facilities and a new community centre and swimming pool. The amount paid under these arrangements in 2007/08 was £7.21m (2006/07: £7.33m). The partnership is planned to continue until 2034/35.

The contract payments in future years required under this agreement are estimated to total £255.47m (2006/07: £262.92m) as itemised below.

	£000s
Obligations payable in 2008/09	7,566
Obligations payable between 2009/10 and 2013/14	39,766
Obligations payable after 2013/14	208,141
Total liabilities at 31 March 2007	255,473

16. Valuation information

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

Fixed Asset Category	Basis of Valuation	Valuation Date	Valued by
Council Dwellings	Existing Use Value - Social Housing	01-Apr-04	District Valuer (RICS)
Non-operational Property	Open Market Value	01-Apr-05	East Lothian Council (RICS)
Operational Property	Existing Use	01-Apr-06	District Valuer (RICS)
Specialised Operational Property	Depreciated Replacement Cost	01-Apr-06	District Valuer (RICS)
Community Assets	Existing Use	01-Apr-07	East Lothian Council (RICS)
Vehicles/Plant	Historic Cost or nominal value	Date Acquired	N/A
Equipment	Historic Cost or nominal value	Date Acquired	N/A
Infrastructure Assets	Historic Cost or nominal value	Date Acquired	N/A

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

17. Depreciation methodologies

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

Council Dwellings	10-50 years
Community Assets	10-40 years
Infrastructure	25 years
Operational Property	5-60 years
Vehicles & Equipment	5-15 years

Since 1 April 2007, Community Assets are depreciated using a straight-line method over their estimated useful lives. This is more compliant with modern accounting standards and reflects the gradual consumption of the value of these assets by their use in the community.

Depreciation is not charged on Non-operational property.

18. Intangible Fixed Assets

Software systems and software licences were acquired to support the provision of services. The cost is being written off over the estimated useful life of those systems and licences.

	Software £000s
Original Cost	250
Amortisations to 1 April 2007	(35)
Balance at 1 April 2007	215
Internal Transfers	935
Expenditure in Year	406
Depreciation	(451)
Balance at 31 March 2008	1,105

19. Analysis of net assets employed

	31 March 2008 £000s	31 March 2007 £000s
General Services	204,349	225,240
Housing Revenue Account	264,612	220,771
Total	468,961	446,011

20. Interests in companies

East Lothian Council holds 200,000 £1 Ordinary shares in Lothian Buses plc. This represents 3.13% of the total share capital. At 31 December 2007 the net assets of the group amounted to £54.92m (31 December 2006: £33.28m) after a year in which a profit on ordinary activities before taxation of £10.2m (31 December 2006: £7.32m) was returned. During the year the Council received final dividends totalling 34.34p per share (2006/07: 34.34p per share)

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the period of trading to 31 March 2008 show net assets of £0.402m (31 March 2007: £0.397m), and a profit before taxation of £0.006m (31 March 2007: £0.001m). All profit has been retained by the company. No dividend was received.

The Council is also interested, at zero book cost, in East Lothian Investments Limited, a company limited by guarantee set up in 1998 to hold investments inherited from the former Lothian Investments Board and intended to support the development of businesses in East Lothian. The net assets of the company at 31 March 2008 amounted to £0.25m (31 March 2007: £0.27m). The results for the period to 31 March 2008 showed a loss after taxation of £0.020m (31 March 2007: £0.002m). No dividend was received.

East Lothian Land Limited is included in the Group Accounts.

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

21. Financial Instruments

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

	Long-Term		Current	
	31 March 2007 £000s	31 March 2008 £000s	31 March 2007 £000s	31 March 2008 £000s
Borrowing				
Financial liabilities at amortised cost	(175,563)	(162,637)	(4,997)	(6,849)
Investments				
Loans and receivables	40,707	40,738	32,184	12,274
Unquoted equity investment at cost	1,000	2,220	-	-
Total investments	41,707	42,958	32,184	12,274

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

	2007/08 £000s	2006/07 £000s
Interest expense	8,319	8,117
Interest income	(1,368)	(1,113)
Dividends	(120)	(86)
Net (gain)/loss for the year	6,831	6,918

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 2008 of between 4.1% and 4.8% for loans from the PWLB and between 3.8% and 4.2% 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.

The fair values calculated are as follows:

	31 March 2008		31 March 2007	
	Carrying Amount £000s	Fair Value £000s	Carrying Amount £000s	Fair Value £000s
Financial liabilities at amortised cost	(169,486)	(180,456)	(180,560)	(184,767)
Loans and receivables	53,012	53,012	72,891	72,891

The fair value of financial liabilities is more than the carrying amount because the authority's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date. These are long-term loans entered into at a time when interest rates were much higher than current rates. The cost of early termination of the loans is prohibitive.

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 (e.g. accounting for the long-term effect of our PPP contract).

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the authority
- Liquidity risk – the possibility that the authority might not have funds available to meet its commitments to make payments
- Market risk – the possibility that financial loss might arise for the authority as a result of changes in such measures as interest rates and stock market movements.

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the Council in the annual Capital Investment and Treasury Management Strategy.

Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers. Deposits are only made for up to 364 days with banks and financial institutions rated independently as having the highest rating of Fitch F1. The authority has a policy of not lending more than £5m of its surplus balances to one institution.

For trade and tax debts, an estimate of the debt that may prove uncollectible is made based on historical experience. This provision is deducted from the value of the debts and is disclosed in the balance sheet.

Liquidity risk

As the authority has ready access to borrowings from the Public Works Loans Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

There is a risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The strategy is to ensure that the maturity profile of the borrowings is as evenly spread as possible and (where it is economic to do so) make early repayments to remove spikes in maturity.

The type and maturity profile of borrowings is as follows:

	31 March 2008 £000s	31 March 2007 £000s
Loan Type		
Public Works Loan Board	(123,700)	(146,983)
Finance Leases	(1,034)	-
Intra-group loans	(5,013)	(4,577)
Market loans	(39,739)	(29,000)
	(169,486)	(180,560)
Loan Maturity		
Repayable after more than 10 years	(153,648)	(164,727)
Repayable between 5 and 10 years	(6,965)	(8,153)
Repayable between 2 and 5 years	(1,442)	(2,231)
Repayable between 1 and 2 years	(582)	(452)
Long-term borrowing	(162,637)	(175,563)
Repayable within 1 year	(6,849)	(4,997)
	(169,486)	(180,560)

Market Risk

The main risks in the market are connected to interest rates, pricing and foreign exchange.

Interest rate risk

The authority is exposed to significant risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance, a rise in interest rates would have the following effects:

- Borrowings at variable rates – the interest expense charged to the Income and Expenditure Account will rise
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest income credited to the Income and Expenditure Account will rise
- Investments at fixed rates – the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Income and Expenditure Account and affect the General Fund Balance £ for £. Movements in the fair value of fixed rate investments would be reflected in the STRGL.

The Council has a number of strategies for managing interest rate risk. Our policy is to minimise our use of variable rate loans, within a maximum of 25% of total borrowings. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses. The risk of loss is ameliorated by the fact that a proportion of government grant payable on financing costs will normally move with prevailing interest rates or the authority's cost of borrowing and provide compensation for a proportion of any higher costs.

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and informs whether new borrowing taken out is fixed or variable.

Price risk

The authority does not generally invest in equity shares but to support its policy objectives it does have shareholdings to the value of £1m in Lothian Buses and East Lothian Land. Theoretically the Council consequently has some exposure to losses arising from movements in the prices of the shares, although the shares are held for policy purposes not trading, which limits the probability that such losses would be realised.

As the shareholdings have arisen in the acquisition of specific interests, the authority 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 authority can monitor factors that might cause a fall in the value of specific shareholdings.

On behalf of the Charitable Trusts, 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 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 Charitable Trusts, the authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

The investment managers for the Charitable Trusts 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 for the Trusts, 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.

22. Provisions

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

	Employee pay and grading £000s	Housing Associations - development funds £000s	Total	Previous Year £000s
Balance at 1 April 2007	1,323	388	1,711	2,666
Expended during the Year	(49)	-	(49)	(1,343)
Additions to the Provision	-	380	380	388
Balance at 31 March 2008	1,274	768	2,042	1,711

The Council undertook a review of its pay and grading methodology to ensure that it complied with Equalities legislation, which will lead to significant retrospective compensation payments. The review has been finalised and it is anticipated that payment will be made during 2008/09. A prudent provision to meet the costs has been made.

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

23. Reserves

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

Reserve	Balance 1 April 2007 £000s	Net Movement in Year £000s	Balance 31 March 2008 £000s	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	-	(1,143)	(1,143)	Store of gains on revaluation of fixed assets	See next table
Available-for-sale Financial Instruments Reserve	-	(1,220)	(1,220)	Store of gains on revaluation of long-term investments	See next table
Capital Adjustment Account	(488,467)	9,204	(479,263)	Store of capital resources set aside to meet past expenditure	See next table
Financial Instruments Adjustment Account	5,116	235	5,351	Store of losses on revaluation of financial instruments	See next table
Pensions Reserve	52,554	(31,137)	21,417	Balancing account to allow inclusion of Pensions Liability in the Balance Sheet	Note 28 to the Core Financial Statements
Capital Fund	(2,941)	-	(2,941)	Resources available to fund capital expenditure or debt repayment	See next table
Insurance Fund	(926)	(34)	(960)	Resources available to meet future liabilities	See next table
Housing Revenue Account Balance	(500)	(880)	(1,380)	Resources available to meet future running costs for council houses	HRA Statements
General Fund Balance	(5,731)	(3,091)	(8,822)	Resources available to meet future running costs for non-housing services	Statement of Movement on the General Fund Balance
Total	(440,895)	(28,066)	(468,961)		

	Revaluation Reserve	Available-for-sale Financial Instruments Reserve	Capital Adjustment Account	Financial Instruments Adjustment Account	Capital Fund	Insurance Fund
	£000s	£000s	£000s	£000s	£000s	£000s
Balance 1 April 2007	-	-	(488,467)	5,116	(2,941)	(926)
Movement in 2007/08						
Revaluation of assets	(1,177)	(1,220)	1,104	-	-	-
Disposal of assets	-	-	-	-	(4,810)	-
Deferred grant release	-	-	(1,847)	-	-	-
Depreciation	34	-	20,742	-	-	-
PPP residual asset	-	-	27	-	-	-
Finance capital expenditure	-	-	(4,850)	-	4,810	-
Finance lease repayment	-	-	(96)	-	-	-
Revaluation of borrowing	-	-	-	492	-	-
Provision for loan repayment	-	-	(5,876)	(257)	-	-
Surplus for year	-	-	-	-	-	(34)
Balance 31 March 2008	(1,143)	(1,220)	(479,263)	5,351	(2,941)	(960)

24. Contingent liabilities and contingent assets

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

25. Authorisation of accounts for issue

As the proper officer, the Executive Director of Corporate Services has the authority to issue the Statement of Accounts. The proper officer also has the authority to amend the statements after issue as necessary. The unaudited accounts were issued on 24 June 2008 and the audited accounts were authorised for issue on 30 September 2008.

26. Trust funds

The Council is either the sole trustee or represents the majority of the trustees for a range of trusts that have arisen due to bequests to the Council. These funds do not represent assets of the Council. These are managed collectively as East Lothian Charitable Funds and further details are provided in the Supplementary Financial Statements.

	2007/08 Income £000s	2007/08 Expenditure £000s	31 March 2008 Assets £000s	31 March 2008 Liabilities £000s
Brunton Theatre Trust *To provide a theatre and performing arts for East Lothian*	(989)	896	1,154	(110)
Richardson Bequest *To provide housing for deserving residents of Haddington*	(95)	6	1,474	-
John Hume Fund *To provide for the upkeep of property, and support building apprentices*	(29)	1	249	-
Wrights and Masons Trust *To provide for the upkeep of property, and to promote secondary education*	(9)	9	261	-
Dunbar Memorial Fund *To provide care and assistance to elderly residents of Haddington*	(12)	30	185	-
Browns Bequest *To provide dental treatment for the poor of Musselburgh*	(13)	1	197	-

27. Reserves and balances held by schools under delegated schemes

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

At 31 March 2008, unused school funds amounted to £0.537m (2006/07: £1.99m). Of this sum 33 (2006/07: 42) schools have a carry-forward surplus of £0.617m (2006/07: £2.01m) while 12 (2006/07: 3) schools have a carry-forward deficit of £0.08m (2006/07: £0.02m).

28. Retirement benefits

Participation in pensions schemes

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

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

Transactions relating to retirement benefits

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

	2007/08 £000s	Restated 2006/07 £000s
Income and Expenditure Account		
Net Cost of Services:		
Current service cost	10,686	11,454
Past service costs	130	(3,335)
Settlements & Curtailments	-	-
Net Operating Expenditure:		
Interest cost	16,885	15,454
Expected return on assets in the scheme	(18,828)	(17,080)
Net Charge to the Income and Expenditure Account	8,873	6,493
Statement of Movement in the General Fund Balance		
Reversal of net charges made for retirement benefits in accordance with FRS 17	(8,873)	(6,493)
Actual amount charged against the General Fund Balance for pensions in the year:	11,039	10,203

Assets and Liabilities in Relation to Retirement Benefits

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

	31 March 2008 £000s	31 March 2007 £000s
Estimated liabilities in scheme	(277,654)	(309,850)
Estimated assets in scheme	256,237	257,296
Net asset/(liability)	(21,417)	(52,554)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £21.4m has a substantial impact on the net worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy as the deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Basis for estimating assets and liabilities

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

The main assumptions used in their calculations were:

	2007/08	2006/07
Rate of inflation	3.6%	3.2%
Rate of increase in salaries	5.1%	4.7%
Rate of increase in pensions	3.6%	3.2%
Rate for discounting scheme liabilities	6.9%	5.4%
Take-up of option to convert annual pension into retirement grant	25.0%	25.0%

Scheme assets are valued at fair value, principally market value for investments, totalling £256.2m for the Fund as a whole at 31 March 2008 (31 March 2007: £257.3m). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	Long-term Return %	31 March 2008 %	31 March 2007 %
Equity investments	7.7	75.9	76.7
Bonds	5.7	8.9	5.4
Property	5.7	11.9	12.3
Other assets	4.8	3.3	5.6
		100.0	100.0

Actuarial gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2007/08 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2008:

	2003/04		2004/05		2005/06		2006/07		2007/08	
	£000s	%	£000s	%	£000s	%	£000s	%	£000s	%
Differences between the expected and actual return on assets	25,193	0.2	5,390	3.0	37,083	15.9	1,530	0.6	(25,858)	-10.1
Differences between actuarial assumptions about liabilities and actual experience	1,148	0.0	(2,457)	1.0	(1,559)	0.5	2,404	0.8	(17)	0.0
Changes in the demographic and financial assumptions used to estimate liabilities	-	-	(43,853)		(33,868)		20,192		54,846	
	26,341		(40,920)		1,656		24,126		28,971	

Defined contribution scheme

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

In 2007/08, the Council paid £4.67m (2006/07: £4.31m) to Teachers' Pensions in respect of teachers' retirement benefits, representing 13.5% (2006/07: 12.5%) of pensionable pay. There were no contributions remaining payable at the year-end.

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

The authority is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. In 2007/08, the Council paid £0.40m (2006/07: £0.39m) to Teachers' Pensions in respect of these retirement benefits.

29. Long-term debtors

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

	31 March 2008 £000s	31 March 2007 £000s	Purpose
PPP Contractor - assets transferred under contract	32,931	34,182	Schools transferred to PPP contractor paid for over the contract
Assets being acquired under PPP Contract	6,426	5,202	Value of the PPP properties that will be acquired at the end of the contract
Private property owners - common repairs	534	544	Repairs to private property funded by secured ELC loans
Employees - car loans	411	315	Loans to employees repaid over 3-5 years
North Berwick Trust	407	407	Loan secured on land
Other	29	57	
Total	40,738	40,707	

30. Short-term loans

At 31 March in any year the Council will be owed funds that it has either loaned out or provided as an overdraft to a subsidiary organisation.

	31 March 2008 £000s	31 March 2007 £000s	Purpose
Short-term deposits with financial institutions	10,017	30,000	Temporary investment of surplus funds
Musselburgh Joint Racing Committee	2,257	2,184	Bank overdraft
Total	12,274	32,184	

31. Debtors – amounts receivable within 1 year

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 2008 £000s	31 March 2007 £000s
Taxpayers - Council Tax	9,548	9,763
Customers - Goods & Services	10,229	11,766
Taxpayers - Community Charge	8,174	10,044
UK Government - VAT & Grants	2,292	2,509
Scottish Government - Revenue Grants	1,979	1,995
Funders - Capital Projects	1,482	944
Tenants - Council House Rents	1,361	1,166
Other debtors	688	819
Total	35,753	39,006

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

	31 March 2008 £000s	31 March 2007 £000s
Taxpayers - Council Tax	(8,529)	(9,047)
Customers - Goods & Services	(2,238)	(2,119)
Taxpayers - Community Charge	(8,174)	(10,044)
Tenants - Council House Rents	(869)	(921)
Total	(19,810)	(22,131)

32. Creditors – amounts payable within 1 year

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 2008 £000s	31 March 2007 £000s
Suppliers and grant recipients	(14,174)	(12,941)
Income received in advance	(3,631)	(3,769)
UK Government - tax and national insurance deductions	(2,297)	(2,323)
Pension Funds - employee and employer contributions	(1,813)	(1,615)
Employees - work in March paid in April	(1,137)	(789)
Total	(23,052)	(21,437)

33. Government grants and other contributions deferred

These are used to finance capital projects and released to income in parallel to the depreciation charge made for the asset. Until the release occurs the value is held in the balance sheet.

	£000s
Balance at 1 April 2007	(36,299)
New grants received	(8,881)
Released to income	1,847
Balance at 31 March 2008	(43,333)

34. Deferred liabilities

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

	31 March 2008 £000s	31 March 2007 £000s	Purpose
Developers' contributions to future capital investment projects	(6,117)	(5,664)	Funding retained until project is completed
Rental income received in advance	(580)	(204)	Income to be released over the lease period
PPP income received in advance	(343)	(356)	Income to be released over the contract period
Total	(7,040)	(6,224)	

35. Notes relating to the Cash Flow Statement

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

	2007/08 £000s	2006/07 £000s
General Services Deficit/(Surplus) for Year	1,855	(514)
Interest Paid (Net)	(6,591)	(6,624)
Finance Lease Payments	(228)	-
Depreciation and impairment of fixed assets	(20,776)	(18,524)
Deferred asset written down	(27)	(27)
Government Grants Deferred amortisation	1,847	1,402
Net gains on sale of fixed assets	4,810	3,116
Net charges made for retirement benefits in accordance with FRS 17	(8,873)	(6,493)
Employer's contributions payable to the Lothian Pension Fund	11,039	10,203
Financial Instrument Valuation Adjustments	204	-
(Increase)/decrease in revenue long term-debtors & liabilities	(699)	811
Increase/(decrease) in stock	2	68
Increase/(decrease) in other current assets	(1,466)	(4,023)
(Increase)/decrease in revenue creditors	(94)	2,698
NET CASH (INFLOW) FROM REVENUE ACTIVITIES	(18,997)	(17,907)

Reconciliation of movement in cash to movement in net debt

	2007/08		2006/07	
	£000s	£000s	£000s	£000s
Increase/(decrease) in short-term loans		(19,910)		24,284
(Increase)/decrease in short-term borrowing		(1,852)		295
(Increase)/decrease in long-term borrowing		10,506		(59,647)
(Increase)/decrease in net debt		(11,256)		(35,068)
Increase/(decrease) in long-term assets	23,783		202,042	
Increase/(decrease) in current assets	(1,311)		(3,282)	
(Increase)/decrease in current liabilities	(1,234)		3,780	
(Increase)/decrease in long-term liabilities	22,956		22,409	
Unrealised (gains)/losses	(26,846)	17,348	(201,226)	23,723
Movement in Cash		6,092		(11,345)

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

	2007/08 £000s	2006/07 £000s
Long-term Loans Decrease/(Increase)	12,926	(59,647)
Short-term Loans Decrease/(Increase)	(21,665)	24,321
Fixed Assets acquired under finance lease	3,454	-
Market Loan Revaluation	492	-
Long-term Debtors Increase/(Decrease)	58	999
Financing Outflow/(Inflow) per statement	(4,735)	(34,327)

Liquid resources

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

Analysis of government grants

	2007/08 £000s	2006/07 £000s
Supporting People Grant	(7,683)	(8,336)
Specific Grant - Sheltered Employment	(59)	(74)
Specific Grant - Mental Illness	(223)	(223)
Specific Grant - Social Work Training	(116)	(116)
Specific Grant - Education National Priorities Action Fund	(4,381)	(4,126)
Other Education Grants	(3,289)	(4,977)
Other Grants	(8,171)	(7,340)
	(23,922)	(25,192)

36. Events after the Balance Sheet date

In these accounts the Musselburgh Joint Racing Committee is presented as a subsidiary of the Council within the Group Accounts. On 23 September 2008, the Council agreed that this would become a sub-committee of the Council, which from 1 April 2008 will be part of the accounts of the Council as a new Significant Trading Operation.

During 2008 there has been significant variability within the financial markets, with consequent uncertainty about the valuation of financial assets. At the time the accounts were authorised for issue, the market values of assets were fluctuating significantly and the overall effect of these fluctuations on assets held by Charitable Trusts and the Pension Fund could not be estimated reliably.

Housing Revenue Account

Income and Expenditure Account

2006/07 £000s		2007/08 £000s	2007/08 £000s
	Income		
(16,007)	Dwelling rents	(16,290)	
(287)	Non-dwelling rents	(294)	
(372)	Service charges	(381)	
(346)	Other income	(292)	
(17,012)	**Total Income**		(17,257)
	Expenditure		
6,430	Repairs and maintenance	6,240	
5,610	Supervision and management	5,643	
8,919	Depreciation and impairment of fixed assets	9,137	
231	Increase in bad debt provision	105	
1,077	Other expenditure	1,070	
22,267	**Total Expenditure**		22,195
5,255	**Net cost of HRA services as included in the whole authority I&E account**		4,938
129	HRA services share of Corporate and Democratic Core		168
(100)	HRA share of other amounts included in the whole authority Net Cost of services but not allocated to specific services		3
5,284	**Net Cost of HRA Services**		5,109
(3,109)	(Gain) or loss on sale of HRA fixed assets		(4,695)
480	Interest payable and similar charges		754
(137)	Interest and investment income		(135)
(49)	Pensions interest cost and expected return on pensions assets.		(49)
2,469	**(Surplus)/Deficit for the year on HRA services**		984

Housing Revenue Account

Statement of Movement on the HRA Balance

2006/07 £000s		2007/08 £000s
2,469	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	984
(5,434)	Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year	(3,840)
2,965	HRA Balance transferred to General Services	1,976
-	(Increase) or decrease in the Housing Revenue Account Balance	(880)
(500)	Housing Revenue Account surplus brought forward	(500)
(500)	Housing Revenue Account surplus carried forward	(1,380)

Note to the Statement of Movement on the HRA Balance

2006/07 £000s		2007/08 £000s	2007/08 £000s
	Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year		
(8,919)	Depreciation and impairment of fixed assets	(9,137)	
256	Government Grants Deferred amortisation	276	
3,109	Gain or loss on sale of HRA fixed assets	4,695	
(126)	Net charges made for retirement benefits in accordance with FRS 17	(184)	
(5,680)			(4,350)
	Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year		
237	Employer's contributions payable to the Lothian Pension Fund	239	
9	Loans fund principal	271	
-	Capital expenditure funded by the HRA	-	
246			510
(5,434)	**Net additional amount required by statute to be debited or (credited) to the HRA Balance for the year**		(3,840)

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.

2006/07 £000s		2007/08 £000s
(46,949)	**Gross Charge Levied**	(49,010)
6	Net cost of Council Tax Benefit	13
	Less :	
3,882	Discounts	4,019
(235)	Provision for bad debts	(203)
(43,296)		(45,181)
146	Previous years' adjustments	190
(43,150)	Transfer to General Fund	(44,991)

Non-domestic Rate Income Account

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

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

Restated 2006/07 £000s		2007/08 £000s
	Rates contributable to National Pool	
(20,034)	Gross rates levied & contributions in lieu (including transitional relief)	(20,902)
4,103	Reliefs and other deductions	4,186
4	Payment of interest	18
28	Provision & bad debts written off	7
(15,899)		(16,691)
(215)	Previous years' adjustments	157
(16,114)	Net non-domestic rates collected	(16,534)
(33,967)	Contribution from the National Non-domestic Rate Pool	(33,509)

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.

Restated 2006/07 £000s		2007/08 £000s	2007/08 £000s
	Income and Expenditure Account for year		
	Expenditure		
2	Employees		2
55	Premises-related Expenditure		40
66	Supplies and Services		60
55	Third Party Payments		33
-	Depreciation		16
178			151
	Income		
(479)	Rents and other income		(473)
(73)	Loan Interest		(98)
(552)			(571)
(374)	**(Surplus)/Deficit for the Year**		(420)
	Common Good Fund		
(1,804)	Balance brought forward on 1 April		(2,047)
131	Appropriation to Capital Financing Account		-
(374)	(Surplus)/Deficit for the Year		(420)
(2,047)	Fund balance as at 31 March		(2,467)
	Balance Sheet as at 31 March		
	Fixed Assets		
617	Community Assets		718
5,921	Non-operational Investment Properties		1,686
6,538			2,404
-	**Long-term Debtors**		1,098
	Current Assets		
3	Sundry Debtors	5	
1,890	Short-term Loans	2,319	
1,893		2,324	
(49)	Less: Current Liabilities - Sundry Creditors	(12)	
1,844			2,312
	Long-term Liabilities		
(599)	Grants Deferred		-
7,783	Net Assets		5,814
	Represented By:		
-	Revaluation Reserve		(66)
(5,736)	Capital Adjustment Account		(3,281)
(2,047)	Common Good Fund		(2,467)
(7,783)			(5,814)

Trust Funds Account

The Council acts as majority or sole Trustee for 87 Charitable Trusts, Bequests and other funds, which are administered in accordance with the individual Bequest terms. In addition since 2006/07 the Brunton Theatre Trust has been accounted for as a Council Trust as the Council are the majority trustees. These funds do not represent assets of the Council.

2006/07 £000s		2007/08 £000s
Income and Expenditure Account for the year		
	Income	
(108)	Investment Income	(146)
(119)	Surplus on Sale of Investments	(93)
(10)	New Bequests	-
(1,043)	Rents & Other Income	(996)
(1,280)		(1,235)
	Expenditure	
305	Grants & Events	65
250	Property Costs	210
624	Other Costs	723
1,179		998
(101)	*(Surplus)/Deficit for Year*	(237)
Balance Sheet as at 31 March		
	Long-term Assets	
1,856	Land & Buildings	1,111
2,452	Investments	2,306
4,308		3,417
	Net Current Assets	
735	Short-term Loans	1,001
13	Less Current Assets/(Liabilities)	(89)
748		912
(1,413)	Government grants and other contributions deferred	(675)
3,643	*Net Assets*	3,654
	Represented By:	
(278)	Capital Adjustment Account	(278)
(1,439)	Available for Sale Reserve	(1,213)
(1,926)	Accumulated Funds	(2,163)
(3,643)		(3,654)

1. Housing Revenue Account

Number and type of dwellings

	Stock at 1 April 2007	Sold in year	Adjustments in year	Bought in year	Stock at 31 March 2008
2 Apartment	1,649	12	-	1	1,638
3 Apartment	4,301	76	-	2	4,227
4 Apartment	2,043	37	-	4	2,010
5 Apartment	216	2	-	1	215
	8,209	127	-	8	8,090

Bad or Doubtful Debts

At the year-end, outstanding arrears totalled £1.26m (2006/07: £1.17m) or 7.4% (2006/07: 7.0%) of the rent collectable. A provision of £0.86m (2006/07: £0.92m) has been set aside in respect of uncollectible arrears.

2. Council Tax Income

Calculation of Council Tax Base

	COUNCIL TAX BAND								
	A	B	C	D	E	F	G	H	Total
Properties	1,172	9,306	13,732	5,077	5,275	3,811	3,249	523	42,145
Disabled Relief	1	26	98	22	24	29	24	3	227
Less :									
Exemptions	(63)	(304)	(275)	(101)	(82)	(41)	(39)	(11)	(916)
Discounts (net effect)	(173)	(1,222)	(1,479)	(487)	(378)	(244)	(202)	(31)	(4,216)
Effective Properties	937	7,806	12,076	4,511	4,839	3,555	3,032	484	37,240
Ratio to Band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	625	6,071	10,734	4,511	5,914	5,135	5,053	968	39,011
Provision for non-payment (3%)									(1,170)
Council Tax Base									37,841
Charge for Each Band	745.08	869.26	993.44	1,117.62	1,365.98	1,614.34	1,862.70	2,235.24	

3. Non-domestic rate account

Analysis of Rateable Values at 1st April 2007

	Number	Rateable Value £000
Shops, Offices and other Commercial Subjects	1,249	16,789,270
Industrial and Freight Transport	770	9,845,990
Miscellaneous (Schools etc)	1,130	20,229,025
	3,149	46,864,285

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 44.4p (2006/07: 45.3p) per pound for properties with rateable value of £29,000 or more and 44.1p (2006/07: 44.9p) for those with a rateable value of less than £29,000. Additional relief was available for those with a rateable value of under £11,501.

4. Common Good Fund

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

Changes in Accounting Policy

Since 1 April 2007, Community Assets are depreciated using a straight-line method over their estimated useful lives. This is more compliant with modern accounting standards and reflects the gradual consumption of the value of these assets by their use in the community.

Explanation of prior period adjustments

In the 2007/08 Statement of Accounts, the Council has adopted one significant new accounting policy that impacts on the comparative figures for 2006/07 in the Balance Sheet:

- In accordance with new accounting standards, the reserves relating to fixed assets have been reclassified as a revaluation reserve, which holds any increase in valuation of assets since 1 April 2007, and a capital adjustment account, which holds the effect of any other changes in value.

These changes have had the following impact on the comparative figures for 2006/07 compared with those published in the 2006/07 Statement of Accounts (only figures that have changed are included in the table):

	Common Good Account in 2006/07 Statement of Accounts	Reclassified Reserves	2006/07 comparatives in the Accounts
	£000s	£000s	£000s
Balance Sheet			
Fixed Asset Restatement Account	(4,385)	4,385	-
Capital Financing Account	(1,351)	1,351	-
Revaluation Reserve	-	-	-
Capital Adjustment Account	-	(5,736)	(5,736)
	(5,736)	-	(5,736)

Fixed Assets

The value of assets changed in the following way:

	Community assets £000s	Investment Properties £000s	Total £000s
Net book value of assets at 31 March 2007	617	5,921	6,538
Movement in 2007/08			
Additions	-	1	1
Disposals	-	(1,729)	(1,729)
Revaluations	66	(2,456)	(2,390)
Depreciation	(16)	-	(16)
Impairments	-	-	-
Internal Transfers	51	(51)	-
Net book value of assets at 31 March 2008	718	1,686	2,404

The most significant change in fixed assets was the temporary disposal to East Lothian Council on finance leases of three properties (Brunton Hall Musselburgh, Town House Haddington and Town House Dunbar) lasting between 21 and 40 years. Disposal was at net book value including the value of deferred grants, with the properties reverting to the full ownership of the common good at the end of the lease.

Long-term Debtors

The proceeds from the finance lease disposals 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 2008/09	(96)
Income receivable between 2009/10 and 2013/14	(479)
Income receivable after 2013/14	(459)
Total assets at 31 March 2008	(1,034)

The balance of the long-term debtor shown in the balance sheet (£64,000) represents the value of the assets being re-acquired over the term of the lease.

Fund Analysis

The four separate funds are valued at 31 March 2008 as: funds are valued at

	Dunbar £'000	Hadding-ton £'000	Mussel-burgh £'000	North Berwick £'000	Total £'000
Balance brought forward on 1 April 2007	(2)	(306)	(1,668)	(71)	(2,047)
(Surplus)/Deficit for the Year	(21)	(39)	(328)	(32)	(420)
Fund balance as at 31 March 2008	(23)	(345)	(1,996)	(103)	(2,467)
Net Assets	1,086	410	3,983	335	5,814

5. Charitable Trusts

In-year Financial Performance

During the year 2007/08, the Trust Funds operated at a surplus of £237,000 (2006/07: surplus of £101,000), which contributed towards an increase in their overall value from £3.643m to £3.654m by 31 March 2008.

Property Asset Valuation

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

Market Investment Valuation

Investments are valued each year by the Trusts' investment managers based on the listed market value of each investment on 31 March. The largest investments held by the Trusts on 31 March 2008 were:

2006/07 £'000	Investment	2007/08 £'000
534	Investec Fund Managers International Equity Account	481
115	UK Treasury Sep07	122
79	Shell Ordinary Shares Eur 0.07	105
59	Vodafone Group Ordinary Shares US $0.11	79
74	British Petroleum Ordinary Shares US $0.25	75
70	HSBC Holdings Ordinary Shares US $0.50	66
1,521	Other stocks, shares and cash	1,378
2,452	Total	2,306

Group Income and Expenditure Account

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

Restated Previous year Net Expenditure £000s		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
1,481	Central services	15,170	(13,068)	2,102
16,409	Cultural and related services	23,957	(7,131)	16,826
74,647	Education services	95,724	(16,474)	79,250
8,328	Environmental services	11,244	(2,237)	9,007
2,521	Housing services (non-HRA)	23,562	(21,329)	2,233
11,690	Joint Board requisitions	11,765	-	11,765
5,383	Local authority housing (HRA)	22,280	(17,342)	4,938
1,929	Planning & development services	3,704	(1,836)	1,868
8,065	Roads and transport services	14,756	(5,957)	8,799
39,431	Social Work services	58,317	(16,816)	41,501
1,953	Corporate and democratic core	2,264	(2)	2,262
(3,335)	Non-distributed costs	130	-	130
168,502	Gross Expenditure, Income and Net Expenditure of the Group	282,873	(102,192)	180,681
1,768	Share of (Surplus)/Deficit of Associates	27,203	(26,568)	635
170,270	**Net Cost of Services**	310,076	(128,760)	181,316
(3,116)	Gains on the disposal of fixed assets			(4,810)
(4)	Share of gains on the disposal of fixed assets of Associates			(6)
8,167	Interest payable and similar charges			8,440
195	Share of interest payable of Associates			168
(1,323)	Interest and investment income			(1,753)
(76)	Share of interest and investment income of Associates			(112)
(1,626)	Pensions interest cost and expected return on pensions assets			(1,943)
6,232	Share of pensions interest cost and expected return on pensions assets of Associates			6,744
178,719	**Net Operating Expenditure**			188,044
(43,150)	Council tax			(44,991)
(11)	Community charge arrears			(15)
(93,760)	General government grants			(100,837)
(33,967)	Non-domestic rates redistribution			(33,509)
7,831	**(Surplus)/Deficit for the Year**			8,692

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

Previous Year £000s		Current Year £000s
(514)	(Surplus)/deficit for the year on the Authority Income and Expenditure Account	1,855
-	Adjustments for transactions with other group entities	-
(514)	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to the Authority	1,855
	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to Group entities;	
230	Subsidiaries	(592)
8,115	Associates	7,429
-	Joint Ventures	-
7,831	(Surplus)/Deficit for the year on the Group Income and Expenditure Account	8,692

Group Statement of Total Recognised Gains and Losses

Previous Year £000s		Current Year £000s
7,832	(Surplus)/Deficit for the year on the Income and Expenditure Account	8,692
(18)	(Surplus)/Deficit arising on revisions to share of Associates	-
-	(Surplus)/Deficit arising on financial instruments	4
(177,284)	(Surplus)/Deficit arising on revaluation of fixed assets	2,234
-	(Surplus)/Deficit arising on revaluation of available-for-sale financial assets	(1,220)
20	(Surplus)/Deficit arising on revaluation of investments	226
(3)	(Surplus)/Deficit arising on Capital Adjustment Account	-
-	Other Gains and Losses included in the STRGL	(52)
(35,097)	Actuarial (gains) /losses on pension fund assets and liabilities	(58,581)
(204,550)	Total recognised (gains)/losses for the year	(48,697)
	Prior perod adjustments	
-	Deficit arising from the revaluation of interest on stepped loans prior to 1 April 2007	343
(204,550)		(48,354)

Group Balance Sheet as at 31 March 2008

Restated 31 March 2007 £000s		31 March 2008 £000s
	Fixed assets	
215	**Intangible fixed assets**	1,105
	Operational assets	
221,418	Council dwellings	222,133
343,131	Other land and buildings	362,030
5,861	Vehicles, plant, furniture and equipment	6,970
41,598	Infrastructure assets	41,407
8,785	Community assets	9,733
	Non-operational assets	
19,264	Investment properties	18,772
9,330	Assets under construction	3,872
967	Surplus assets held for disposal	1,004
650,569	**Total fixed assets**	667,026
200	Long-term investments	1,420
40,707	Long term debtors	40,802
2,452	Other Investments	2,306
693,928	**Total long-term assets**	711,554
	Current assets	
421	Stocks and work in progress	423
32,057	Short-term loans	12,687
14,856	Debtors and prepayments	13,897
9,781	Cash and bank	3,708
751,043	**Total assets**	742,269
	Current liabilities	
(2,114)	Borrowing repayable on demand or within 12 months	(3,942)
(21,906)	Creditors	(23,680)
(24,020)		(27,622)
727,023	**Total assets less current liabilities**	714,647
	Long-term liabilities	
(175,764)	Borrowing repayable within a period in excess of 12 months	(161,638)
(1,711)	Provisions	(2,042)
(38,311)	Government grants and other contribututions deferred	(44,008)
(6,224)	Deferred liabilities	(7,040)
(52,554)	Liability related to defined pension benefit schemes	(21,417)
(122,986)	Investments in associates and joint ventures	(100,675)
329,473	**Total assets less liabilities**	377,827
	Financed by	
-	Revaluation Reserve	(1,282)
-	Available-for-sale Financial Instruments Reserve	(1,220)
(499,263)	Capital Adjustment Account	(488,007)
5,116	Financial Instruments Adjustment Account	5,361
181,448	Pensions Reserve	128,417
(2,941)	Capital Fund	(2,941)
(1,439)	Investments Revaluation Balance	(1,213)
(926)	Insurance Fund	(960)
(500)	Housing Revenue Account Balance	(1,380)
-	Called Up Share Capital	-
(10,968)	General Fund Balance	(14,602)
(329,473)	**Total net worth**	(377,827)

Group Cash Flow

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

Previous Year £000s		Current Year £000s	£000s
(17,660)	**Net Cash (Inflow)/Outflow from Revenue Activities**		(19,824)
(86)	**Dividends**		(120)
	Returns on Investments and Servicing of Finance		
8,511	Interest paid	9,240	
(1,294)	Interest received	(1,992)	
7,217			7,248
-	**Taxation**		-
	Capital Expenditure and Financial Investment		
48,167	Purchase of fixed assets	44,164	
90	Purchase of long-term investments	80	
(6,843)	Sale of fixed assets	(10,259)	
(7,395)	Capital grants received	(8,791)	
34,019			25,194
-	**Equity Dividends Paid**		-
-	**Acquisitions & Disposals**		-
23,490	**Net Cash Inflow before Financing**		12,498
	Management of Liquid Resources		
23,749	Net increase/(decrease) in short term loans	(19,214)	
	Financing		
46,394	Repayments of amounts borrowed	24,715	
999	New loans made	58	
(105,971)	New loans raised	(11,984)	(6,425)
(11,339)	Net (Increase)/Decrease in Cash		6,073

Notes to the Group Financial Statements

Combining Entities

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

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

Organisation	Percentage Share in Associate (%)	Accounting Period
Lothian Valuation Joint Board	10.92%	Twelve months to 31/03/2008
Lothian & Borders Police Board	8.43%	Twelve months to 31/03/2008
Lothian & Borders Fire and Rescue Board	6.41%	Twelve months to 31/03/2008
SESTRANS	6.33%	Twelve months to 31/03/2008

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

Organisation	Percentage Share in Subsidiary (%)	Accounting Period
East Lothian Land	100.00%	Twelve months to 31/03/2008
Common Good Accounts	100.00%	Twelve months to 31/03/2008
Charitable Trusts	100.00%	Twelve months to 31/03/2008
Musselburgh Joint Racing Committee	100.00%	Twelve months to 31/03/2008

No subsidiaries have been excluded.

The annual accounts for the Common Good Funds and the Charitable Trusts are included at pages 51 to 52. The net value of the Charitable Trusts included within the Group Accounts is £3.654 million. The nature of the assets is explained in Note 5 to the Supplementary Financial Statements on page 56.

The Council acts as majority or sole Trustee for 87 Charitable Trusts, Bequests and other funds. In addition since 2006/07 the Brunton Theatre Trust has been accounted for as a Council Trust as the Council are the majority trustees.

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

Nature of Combination

Associates

East Lothian Council is involved in the above named associates as one of the constituent authorities of these statutory Joint Boards. The share of the net assets of these associates is shown as a long-term liability on the Balance Sheet. Any share of reserves is included within the reserves of the Group. It is not considered that any goodwill exists from this interest in associate companies.

No shares are issued and the relative split of assets and reserves are in line with the share of the requisition to East Lothian Council

Subsidiaries

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the last period of trading to 31 March 2008 show net assets of £402,000 (2007: £397,000), and a profit before taxation of £6,000 (31 March 2007: £1,000). The company has retained all profit. No dividend was received.

In 1994 East Lothian District Council, along with the Lothians Racing Syndicate Limited, set up the Musselburgh Joint Racing Committee. The remit of the Committee is to organise and develop horse racing at Musselburgh Links. No shares are issued. The Council nominates four of the seven Committee members with the other three nominated by the Syndicate. East Lothian Council inherited an interest in this subsidiary company as a result of local government re-organisation in 1996. A financial interest exists since the Council 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.

In October 2006, the Council set up the Musselburgh Racing Company Ltd with the intention of transferring the business of the Joint Racing Committee to a new company. However, this company has not been activated and the Joint Racing Committee continued to operate throughout 2007/08. This subsidiary has been incorporated in line with the draft financial statements made available to East Lothian Council.

Financial Impact of Consolidation

The effect of inclusion of the associate and subsidiary companies on the Group Balance Sheet is to reduce Net Assets and Reserves by £91 million. This is as a result of East Lothian Council's share of the pension liabilities of the Joint Boards.

Reconciliation of Surplus to Net Revenue Cash Flow

	Total 2008
General Services Deficit/(Surplus) for Year	1,235
Net Contribution from/(to) Reserves (excl interest)	-
Interest Paid (Net)	(6,447)
Finance Lease Payments	(228)
Depreciation and impairment of fixed assets	(20,942)
Deferred assets written down	(27)
Government Grants Deferred Amortised	1,847
Net gains on sale of fixed assets	4,810
Net charges for retirement benefits in accordance with FRS 17	(8,873)
Employer's contributions to the Lothian Pension Fund	11,039
Financial Instrument Valuation Adjustments	204
(Increase)/decrease in revenue long term-debtors & liabilities	(699)
Increase/(decrease) in stock	2
Increase/(decrease) in other current assets	(1,011)
(Increase)/decrease in revenue creditors	(734)
NET CASH (INFLOW) FROM REVENUE ACTIVITIES	(19,824)

Statement on the System of Internal Financial Control

Scope of Responsibility

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

In discharging this overall responsibility, East Lothian Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of East Lothian Council's functions and which includes arrangements for the management of risk. The system of internal control applies to the subsidiaries included in the Group Accounts but not the associates. The associates are covered by the internal control systems of the lead authority for the Joint Boards, which is the City of Edinburgh Council (CEC). We have not been notified of any internal control issues connected with the associates and take assurance from this that CEC internal controls have operated effectively.

The Purpose of the System of Internal Financial Control

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

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

The system of internal financial control has been in place at East Lothian Council for the year ended 31 March 2008 and up to the date of approval of the annual report and accounts.

Work on corporate risk assessment, which began in 2003/4, was suspended during 2007/8 pending a review of the Council's approach to risk management.

The Internal Financial Control Environment

Main Features of the System

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

- Comprehensive budgeting systems

- Preparation and regular reviews of periodic and annual financial reports that indicate financial performance against the budget

- Setting targets to measure financial and other performance

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

Role of Internal Audit and Management

The arrangements for Internal Audit are designed to ensure the provision of an independent opinion on the adequacy and effectiveness of the system of internal financial control. Their direct reporting line to the Director of Corporate Finance & IT promotes the independence of Internal Audit. They undertake an annual programme of work based on an annual audit plan approved by the Corporate Governance Policy and Performance Review Panel (PPRP) and operate to relevant professional standards.

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

Other Review Processes

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

Review of Effectiveness

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

- The work of managers within the Council
- An annual declaration from all Chief Officers
- The work of Internal Audit as described above
- The External Auditor in their annual audit letter and other reports

- Reports issued by other review agencies and inspectorates.

Progress is being made towards achieving the improvements included in the Statement on the System of Internal Financial Control for 2006/07, with continued effort required as follows:

- Improved business planning arrangements are being considered to enhance services' strategic management arrangements including the allocation of resources and monitoring of finances
- Further improvements to the regular financial review process are also being considered to enhance the quality of information and advice given to the various users of financial information
- Further development of written procedures and workflows is required for some processes to enable financial procedures to be consistently followed. This will assist in ensuring adequate segregation of duties for key financial processes
- More work is required to ensure that capital projects are assessed and prioritised in accordance with a Corporate Asset Management Plan and that capital spending is monitored
- The system for the recovery of sundry debts needs to be improved to ensure that all outstanding sums are paid within established timescales and as per documented procedures.

Significant Internal Financial Control Issues

The need for improvement of management processes has been identified in 2007/08 for the following areas:

- The quality of management information about outcomes, how the Council influences them and how this impacts on cost of service
- Implementing the recommendations contained in the Following the Public Pound report produced by Audit Scotland in 2005/6.

Alex McCrorie
Executive Director of Corporate Services
24 June 2008

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

I certify that I have audited the financial statements of East Lothian Council and its group for the year ended 31 March 2008 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet and Cash-Flow Statement, the Housing Revenue Account Income and Expenditure Account, Statement of Movement on the HRA Balance, the Council Tax Income Account, the Non-Domestic Rate Income Account, the Common Good Account, the Trust Funds Account and the related notes and the Statement of Accounting Policies together with the Group Accounts. These financial statements have been prepared under the accounting policies set out within them.

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

Respective responsibilities of the Executive Director of Corporate Services and auditor

The Executive Director of Corporate Services' responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2007 - A Statement of Recommended Practice (the 2007 SORP) are set out in the Statement of Responsibilities for the financial statements.

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

I report my opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP the financial position of the local authority and its group and its income and expenditure for the year, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

I also report to you if, in my opinion, the local government body has not kept proper accounting records, or if I have not received all the information and explanations I require for my audit.

I review whether the Statement on the System of Internal Financial Control reflects compliance with the SORP, and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

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

Basis of audit opinion

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

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

Opinion

In my opinion the financial statements

- present fairly, in accordance with relevant legal and regulatory requirements and the 2007 SORP, the financial position of East Lothian Council and its group as at 31 March 2008 and its income and expenditure for the year then ended; and

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

Failure to comply with a statutory requirement

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

Local authorities have a duty under section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2008 in respect of the following significant trading operations:

- Facility Services

- Sportplus

Gillian Woolman

Gillian Woolman ACA, Assistant Director
Audit Scotland – Audit Services
Osborne House, 1/5 Osborne Terrace
Edinburgh, EH12 5HG

30 September 2008