

# EAST LoTHIAN COUNCIL

## STATEMENT OF ACCOUNTS

### 2008/09

# CONTENTS

	Page
Foreword	1
Statement of Accounting Policies	5
Statement of Responsibilities for the Statement of Accounts	16
Statement of Accounts	
Core Financial Statements	
Income and Expenditure Account	17
Statement of Movement on the General Fund Balance	18
Statement of Total Recognised Gains and Losses	19
Balance Sheet	20
Cash Flow Statement	21
Notes to the Core Financial Statements	22
Supplementary Financial Statements	
Housing Revenue Account	50
Council Tax Income Account	52
Non-domestic Rate Income Account	52
Common Good Account	53
Trust Funds Account	54
Notes to the Supplementary Financial Statements	55
Group Financial Statements	
Income and Expenditure Account	58
Reconciliation of Council and Group Surplus or Deficit	59
Statement of Total Recognised Gains and Losses	59
Balance Sheet	60
Cash Flow Statement	61
Notes to the Group Financial Statements	62
Statement on the System of Internal Financial Control	65



## FOREWORD

Welcome to the Council's accounts for 2008/09. 2008/09 was another eventful year for the Council and I hope you find these to be an understandable guide to the most significant financial matters that have arisen within the Council and its wider group. 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 about what happened in 2008/09, which 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 2008/09 (1 April 2008 to 31 March 2009)
- Balance Sheet: this details the net worth of the Council at 31 March 2009 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 £3.86million (last year deficit £1.86 million). But statute requires that further adjustments of £4.66m be made, resulting in a statutory surplus for the year of £0.80 million (last year surplus £3.09 million) 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 2008/09 are broadly in line with the forecasts made in public financial reports made throughout the year. Similar to last year, we have seen spending in excess of budget in areas such as Adult Social Care (£264,000) and Homelessness (£300,000), which reflects the difficulties of managing this type of demand-driven statutory expenditure.

But these examples of excess spending were more than offset by the following positive factors:

- An under-spend of £1.3 million on the budget set aside to meet single status costs
- Better than anticipated council tax receipts – generating approximately £832,000 more income than expected
- Savings on treasury management and income from interest receipts totalling £946,000
- Savings within central support departments such as Information Technology, Corporate Finance and Human Resources totalling £516,000, and
- Some savings across service budgets.

In overall terms, the statutory surplus of £0.80 million is a welcome addition to reserves especially given the difficult financial conditions forecast for UK public services in the coming years.

#### *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.

With the exception of Sportplus, all STOs returned a surplus and achieved their statutory target in 2008/09. Sportplus improved their financial performance for the third consecutive year and made a surplus of £161,000 in 2008/09 but this was not enough to overcome the overall deficit from the two preceding years. Sportplus is scheduled for transfer out of the Council into a not-for-profit company during 2009/10.



*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 £988,000 there remains a further surplus of £1.24 million 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 2009 (£326.7m) is less than the net worth of the Council (£421.4m). 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. This is recognised as being a national problem, and discussions are well advanced with the Scottish Government to fund police pensions in a different way.

**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 net pension liability has been assessed as being £59.3m at 31 March 2009. This is a significant deterioration on the position a year ago (liability £22.7m). The change is mainly due to a fall in the value of assets, which reflects the worsening UK economic climate over the last year. Last year we commented on just how volatile the pensions liability calculation actually is, and results this year have once again illustrated this point.

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 have been introduced for the pension fund from April 2009, but the process of actuarial review and contribution revision will continue.



### ***Change in Accounting Policies***

To comply with changes in Accounting Standards requirements, we made one change to accounting policies, and this is explained in Note 2 to the Core Financial Statements.

### ***Capital Investment Plans***

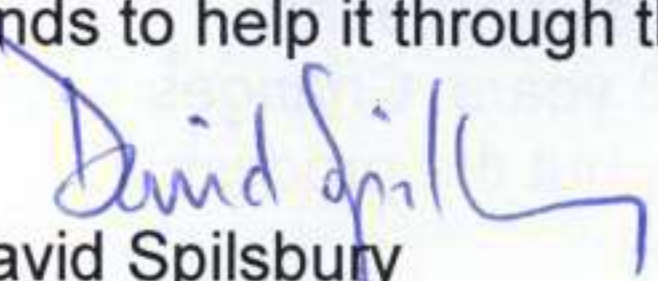
In 2008/09, we invested £49.6m in assets that support service delivery within East Lothian, which is slightly more than the previous year (£47.5m). Provided UK public expenditure constraints do not lead to central government control and rationing of capital expenditure, the Council plans to continue this level of investment in future years and may increase expenditure especially on council housing.

We usually finance capital investment by using long-term borrowing, although investment in our 6 secondary schools has been delivered through a Public Private Partnership (PPP). During 2008/09 our borrowing increased to £179.1 million (2007/08: £169.5m) to support capital expenditure for the year. We also financed expenditure by running down funds held on deposit and as cash. This was a deliberate management choice that reflected the very low interest received on deposits and to limit the risk of loss of funds in a very turbulent year for banks and financial institutions.

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***

2008/09 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 well-publicised difficulties that lie ahead for UK public sector finances provide a sobering context for good results this year. In 2008/09 the Council added to its reserves and strengthened its financial position going forward. It is likely to need those funds to help it through the coming years.

  
David Spilsbury  
Head of Finance  
24 June 2009



# Statement of Accounting Policies

## 1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2008/09 financial year and its position at the year-end of 31 March 2009. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008 – 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 – bid price
- Unquoted securities – professional estimate
- Unitised securities – average of the bid and offer rates
- Property – market value.

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

- Current service cost – the increase in liabilities as a result of the years of service earned this year – allocated in the 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 2008 (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 assets (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)
- 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 fair value, 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 Private Finance Initiative (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 PFI contractor, usually at the start of the scheme. The difference between the value of the asset at the date of transfer and any residual value that might accrue to the authority at the end of the contract is treated as a contribution made to the contractor and is accounted for as a prepayment. The prepayment is written down (charged) to the respective revenue account over the life of the contract to show the full value



of services received in each year. However, as the charge is a notional one, it is reversed out in the Statement of Movement on the General Fund Balance to remove any impact on Council Tax.

### 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 Head of Finance, who is the designated Chief Finance Officer
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.

### **The Chief Finance Officer's responsibilities**

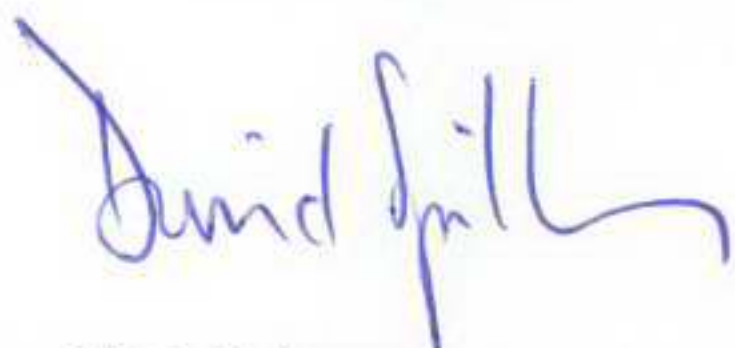
The Chief Finance Officer is responsible for the preparation of the authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code of Practice').

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

- Selected suitable accounting policies and then applied them consistently
- Made judgments and estimates that were reasonable and prudent
- Complied with the Code of Practice
- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **The Chief Finance Officer's Certification**

I certify that the Statement of Accounts present a true and fair view of the financial position of the authority at 31 March 2009 and its income and expenditure for the year ended 31 March 2009.



David Spilsbury  
Head of Finance

24 June 2009.



## 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 projected value of retirement benefits earned by employees in the year.

The large increase in Net Cost of Services and General government grants are connected. In 2008/09, the Scottish Government changed their grant accounting to move funds into general grant from specific grants. This reduced the income included within Net Cost of Services.

Previous Year Net Expenditure £000s	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
2,102 Central services	14,204	(13,056)	1,148
17,199 Cultural and related services	24,758	(7,496)	17,262
79,341 Education services	96,380	(11,248)	85,132
9,007 Environmental services	11,727	(1,194)	10,533
2,233 Housing services (non-HRA)	24,605	(20,319)	4,286
11,765 Joint Board requisitions	12,078	-	12,078
4,938 Local authority housing (HRA)	24,053	(18,079)	5,974
1,852 Planning & development services	4,145	(1,540)	2,605
8,799 Roads and transport services	16,802	(7,424)	9,378
41,501 Social Work services	60,910	(7,389)	53,521
2,262 Corporate and democratic core	1,898	-	1,898
130 Non-distributed costs	-	-	-
<b>181,129 Net Cost of Services</b>	<b>291,560</b>	<b>(87,745)</b>	<b>203,815</b>
(4,810) Gains on the disposal of fixed assets			(5,223)
8,319 Interest payable and similar charges			8,855
(1,488) Interest and investment income			(851)
(1,943) Pensions interest cost and expected return on pensions assets			542
<b>181,207 Net Operating Expenditure</b>			<b>207,138</b>
(44,991) Council tax			(44,867)
(15) Community charge arrears			(23)
(100,837) General government grants			(122,775)
(33,509) Non-domestic rates redistribution			(35,609)
<b>1,855 (Surplus)/Deficit for the Year</b>			<b>3,864</b>



## 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
1,855	Deficit for the year on the Income and Expenditure Account	3,864
	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (note 1)	
(4,946)		(4,662)
(3,091)	Increase in General Fund Balance for the Year	(798)
(5,731)	General Fund Balance brought forward	(8,822)
(8,822)	General Fund Balance carried forward	(9,620)

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 decrease in its net worth. In addition to the deficit generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Restated Previous Year £000s		Current Year £000s
1,855	Deficit for the year on the Income and Expenditure Account	3,864
(73)	Net (surplus)/deficit arising on revaluation of fixed assets	1,187
(1,220)	Net (surplus)/deficit arising on revaluation of available-for-sale financial assets	364
(28,971)	Actuarial (gains)/losses on pension fund assets and liabilities	40,798
(28,409)	Total recognised (gains)/losses for the year	46,213
	<i>Prior period adjustments</i>	
343	Deficit arising from the revaluation of interest on stepped loans prior to 1 April 2007	-
1,305	Deficit arising from the revaluation of pension assets	-
(26,761)	(Increase)/decrease in Balance Sheet value	46,213



## Balance Sheet as at 31 March 2009

Restated 31 March 2008 £000s		31 March 2009 £000s
<b>Fixed assets</b>		
1,105	<b>Intangible fixed assets</b> (note 18)	995
<b>Tangible fixed assets</b>		
<b>Operational assets:</b> (note 11)		
222,133	Council dwellings	235,518
357,851	Other land and buildings	355,543
6,970	Vehicles, plant, furniture and equipment	7,901
41,407	Infrastructure assets	45,191
9,015	Community assets	16,026
<b>Non-operational assets:</b> (note 11)		
17,086	Investment properties	16,070
3,872	Assets under construction	5,382
1,004	Surplus assets held for disposal	964
660,443	<b>Total fixed assets</b>	682,595
2,220	Long-term investments (note 21)	1,856
40,738	Long-term debtors (note 29)	40,854
703,401	<b>Total long-term assets</b>	726,300
<b>Current assets</b>		
423	Stocks and work in progress	427
12,274	Short-term loans (note 30)	7,162
35,753	Debtors (note 31)	30,501
(19,810)	Bad and doubtful debt provision (note 31)	(18,878)
3,290	Cash and bank	-
		19,212
735,331	<b>Total assets</b>	745,512
<b>Current liabilities</b>		
(6,849)	Borrowing repayable on demand or within 12 months (note 21)	(6,504)
(23,052)	Creditors (note 32)	(22,105)
-	Bank overdraft	(5,786)
		(34,395)
705,430	<b>Total assets less current liabilities</b>	711,117
<b>Long-term liabilities</b>		
(162,637)	Borrowing repayable within a period in excess of 12 months (note 21)	(172,622)
(2,042)	Provisions (note 22)	(1,200)
(43,333)	Government grants and other contributions deferred (note 33)	(50,703)
(7,040)	Deferred liabilities (note 34)	(5,867)
(22,722)	Liability related to defined benefit pension scheme (note 28)	(59,282)
467,656	<b>Total assets less liabilities</b>	421,443
<b>Financed by:</b>		
(1,143)	Revaluation Reserve (note 23)	(2,119)
(1,220)	Available-for-sale Financial Instruments Reserve (note 23)	(856)
(479,263)	Capital Adjustment Account (note 23)	(466,944)
5,351	Financial Instruments Adjustment Account (note 23)	5,481
22,722	Pensions Reserve (note 28)	59,282
(2,941)	Capital Fund (note 23)	(2,941)
(960)	Insurance Fund (note 23)	(1,104)
(1,380)	Housing Revenue Account Balance (note 23)	(2,621)
(8,822)	General Fund Balance (note 23)	(9,621)
(467,656)	<b>Total net worth</b>	(421,443)

The unaudited accounts were issued on 24 June 2009 and the audited accounts were authorised for issue on 30 September 2009.

David Spilsbury  
Head of Finance



## Cash Flow Statement

Previous Year		Current Year	
£000s		£000s	£000s
<b>Revenue activities</b>			
<i>Cash outflows</i>			
120,973	Cash paid to and on behalf of employees	129,564	
91,890	Other operating cash payments	89,105	
7,355	Housing Benefit paid out	9,497	
11,845	Requisitions paid	12,166	240,332
<i>Cash inflows</i>			
(8,442)	Rents (after rebates)	(9,212)	
(45,171)	Council Tax receipts	(45,362)	
(33,304)	Non-domestic rate receipts	(35,636)	
(100,837)	Revenue Support Grant	(122,775)	
(15,641)	DSS grants for benefits	(17,179)	
(23,922)	Other government grants	(7,161)	
(11,149)	Cash received for goods and services	(11,162)	
(12,594)	Other operating cash receipts	(9,893)	(258,380)
(18,997)	Net cash inflow from revenue activities		(18,048)
<b>Dividends from joint ventures and associates</b>			
<i>Cash inflows</i>			
(120)	Dividends received		(69)
<b>Returns on investments and servicing of finance</b>			
<i>Cash outflows</i>			
8,983	Interest paid	7,982	
132	Interest element of finance leases	253	
<i>Cash inflows</i>			
(1,722)	Interest received	(808)	7,427
<b>Capital activities</b>			
<i>Cash outflows</i>			
44,021	Purchase of fixed assets	49,978	
<i>Cash inflows</i>			
(10,259)	Sale of fixed assets	(6,489)	
(8,791)	Capital grants received	(9,502)	33,987
13,247	<b>Net cash outflow before financing</b>		23,298
<b>Management of liquid resources</b>			
(19,909)	Net decrease in short-term deposits	(5,112)	
<b>Financing</b>			
<i>Cash outflows</i>			
24,584	Repayments of amounts borrowed	23,268	
96	Capital element of finance leases	(25)	
58	New loans made	143	
<i>Cash inflows</i>			
(10,000)	New long-term loans raised	(32,000)	
(1,984)	New short-term loans	(496)	(14,222)
6,092	<b>Net decrease in cash</b>		9,076



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

Previous Year £000s		Current Year £000s
<b>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</b>		
(20,776)	Depreciation and impairment of fixed assets	(24,048)
2,856	Housing Revenue Account Surplus/(Deficit)	2,229
(27)	Deferred asset written down	(27)
1,847	Government Grants Deferred amortisation	2,145
4,810	Net gains on sale of fixed assets	5,223
	Differences between amounts debited/credited to the Income and Expenditure Account and amounts payable/receivable to be recognised under	
(53)	statutory provisions relating to finance leases, stepped loans and premiums and discounts on the early repayment of debt	(410)
(8,873)	Net charges made for retirement benefits in accordance with FRS 17 (note 28)	(7,749)
<b>(20,216)</b>		<b>(22,637)</b>
<b>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</b>		
6,134	Loans fund principal repayments and statutory premia	6,833
39	Capital expenditure charged in-year to the General Fund Balance	-
11,039	Employer's contributions payable to the Lothian Pension Fund	11,986
<b>17,212</b>		<b>18,819</b>
<b>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</b>		
(1,976)	Transfer to/(from) the Housing Revenue Account Balance	(988)
34	Transfer to/(from) the Insurance Fund	144
<b>(1,942)</b>		<b>(844)</b>
<b>(4,946)</b>	<b>Net additional amount required to be credited to the General Fund Balance for the year</b>	<b>(4,662)</b>



## 2. Explanation of prior period adjustments

In the 2008/09 Statement of Accounts, the Council has shown the effect of changes to Financial Reporting Standard FRS17. Previously FRS17 required that the fair value of quoted securities was the mid-market value, but for accounting periods beginning on or after 6 April 2007, quoted securities are required to be valued at their bid price. Making this change results in a restatement of the opening value for 2008/09.

<b>Balance Sheet</b>	<b>Balance Sheet in 2007/08 Statement of Accounts</b>	<b>Restatement of quoted securities</b>	<b>2007/08 comparatives in the Balance Sheet Account</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
Liability related to defined benefit pension scheme	(21,417)	(1,305)	(22,722)
<b>Impact on Total Assets less Liabilities</b>	<b>(21,417)</b>	<b>(1,305)</b>	<b>(22,722)</b>
Pension Reserve	21,417	1,305	22,722
<b>Impact on Total Net Worth</b>	<b>21,417</b>	<b>1,305</b>	<b>22,722</b>

## 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 were 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 2008/09 for the second time.

### Facility Services

The Facility Services Trading Operation provides catering, janitorial and cleaning services at locations owned or managed by the Council. A catering service is provided at secondary and primary schools and at some other buildings. The cleaning operation provides a regular building cleaning service to all departments of the Council. The cumulative position over the three years is a surplus of £1.02 million.

	<b>2008/09 £000s</b>	<b>2007/08 £000s</b>	<b>2006/07 £000s</b>
Turnover	8,106	7,427	6,811
Surplus/(Deficit)	803	182	33
3-year Cumulative Surplus/(Deficit)	1,018		



*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 2008/09 is a deficit of £180,000 over the three years. However, this trading activity produced a surplus in the most recent financial year of £161,000. The Council has now agreed to transfer the operation and management of the Council's leisure services to a not for profit company. This is expected to happen during the 2009/10 financial year.

	2008/09	2007/08	2006/07
	£000s	£000s	£000s
Turnover	4,999	4,647	4,039
Surplus/(Deficit)	161	(53)	(288)
3-year Cumulative Surplus/(Deficit)	(180)		

*Property Maintenance*

Property Maintenance provides property maintenance services. The majority of work is undertaken on the Council's housing stock – including an increasing amount of work on housing improvements. This trading operation has now been operating for four years and has managed to increase its surplus during 2008/09. The cumulative position over the last three years is now a surplus of £1.145 million.

	2008/09	2007/08	2006/07
	£000s	£000s	£000s
Turnover	9,415	8,687	8,522
Surplus/(Deficit)	645	218	282
3-year Cumulative Surplus/(Deficit)	1,145		

*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 2007/08 as a result of difficulties with a large contract. However, over the three-year period the service still has a cumulative surplus of £243,000 and has met the statutory target.

	2008/09	2007/08	2006/07
	£000s	£000s	£000s
Turnover	6,700	5,143	5,697
Surplus/(Deficit)	150	(126)	219
3-year Cumulative Surplus/(Deficit)	243		



#### 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:

	2008/09 £000s	2007/08 £000s
Arts & Heritage	14	11
Corporate Publicity	16	30
Councillors' Surgeries	37	28
Healthy Living	18	8
Other Advertising	28	34
Total	113	111

#### 5. Agency income and expenditure

The Council provides an agency service to Scottish Water; associated income and expenditure is not included within the Council Income and Expenditure Account. In 2008/09, £13.8m (2007/08: £13.2m) was paid over to Scottish Water.

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

#### 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 2008/09, £0.57m (2007/08: £0.53m) was paid as Councillors' salaries, including expenses, travel, subsistence and conference expenses.

#### 8. Officers' remuneration

Remuneration includes salary, expenses, allowances and severance payments, but excludes pension contributions.



Band	2008/09 £000s	2007/08 £000s
£110,000 +	1	-
£100,000-109,999	1	1
£90,000 - £99,999	3	4
£80,000 - £89,999	5	5
£70,000 - £79,999	6	6
£60,000 - £69,999	9	7
£50,000 - £59,999	36	27
Total	61	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 its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. 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 2008/09, no works and services were commissioned from companies in which members had an interest. In addition, the Council paid grants and contributions totalling £14.9m 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](http://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 2008/09, no works or services were commissioned from companies in which senior officers had an interest. The Council paid grants totalling £0.4m to voluntary organisations in which 11 senior officers had an interest. 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 £0.27m (2007/08: £0.28m) from the Council to recover their costs.

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

## 11. Capital expenditure and fixed asset disposals

### Operational assets

	Council dwellings £000s	Other land and buildings £000s	Vehicles, plant, etc £000s	Infra-structure £000s	Comm-unity assets £000s	Total £000s
<b>Cost or valuation</b>						
At 1 April 2008	283,209	397,353	14,797	64,341	9,220	768,920
Additions	24,705	9,608	3,333	7,316	2,188	47,150
Disposals	(1,141)	-	-	-	(19)	(1,160)
Reclassifications	-	-	-	-	-	-
Revaluations	-	(5,419)	-	26	5,385	(8)
At 31 March 2009	306,773	401,542	18,130	71,683	16,774	814,902
<b>Depreciation and impairments</b>						
At 1 April 2008	(61,076)	(39,502)	(7,827)	(22,934)	(205)	(131,544)
Charge for 2008/09	(10,179)	(6,497)	(2,402)	(3,558)	(543)	(23,179)
At 31 March 2009	(71,255)	(45,999)	(10,229)	(26,492)	(748)	(154,723)
Balance Sheet Amount at 31 March 2009	235,518	355,543	7,901	45,191	16,026	660,179
Balance Sheet Amount at 1 April 2008	222,133	357,851	6,970	41,407	9,015	637,376

### Non-operational assets

	Investment Properties £000s	Assets Under construction £000s	Surplus assets held for disposal £000s	Total £000s
<b>Cost or valuation</b>				
At 1 April 2008	17,086	3,872	1,004	21,962
Additions	299	1,590	-	1,889
Disposals	(7)	(80)	-	(87)
Reclassifications	-	-	-	-
Revaluations	(1,139)	-	(40)	(1,179)
At 31 March 2009	16,239	5,382	964	22,585
<b>Depreciation and impairments</b>				
At 1 April 2008	-	-	-	-
Charge for 2008/09	(169)	-	-	(169)
At 31 March 2009	(169)	-	-	(169)
Balance Sheet Amount at 31 March 2009	16,070	5,382	964	22,416
Balance Sheet Amount at 1 April 2008	17,086	3,872	1,004	21,962



## Capital expenditure and financing

	2008/09 £000s	2007/08 £000s
<i>Gross Capital Expenditure</i>		
Intangible assets	590	406
Operational assets	47,150	43,491
Non-operational assets	1,889	3,608
	<u>49,629</u>	<u>47,505</u>
<i>Gross Capital Income</i>		
Capital receipts	(6,469)	(10,281)
Government grants and other contributions	(9,515)	(8,881)
	<u>(15,984)</u>	<u>(19,162)</u>
Sums set aside from revenue	-	(39)
Finance leases	-	(1,130)
Debt finance	(33,645)	(27,174)
<i>Gross Capital Financing</i>	<u>(49,629)</u>	<u>(47,505)</u>

## 12. Commitments under capital contracts

As at 31 March 2009, the Council had the following major contracts in place and was committed to expenditure as detailed below:

	£000s
Housing Development at Brierbush Road, Macmerry	3,894
Kinnegar Waste Transfer Plant (Phase II)	3,379
Musselburgh Racecourse	3,325
Prestonpans IS alterations and extensions	1,729
Housing Development Plot D West Windygoul	764
Prestonpans PS alterations and extensions	555
Mansfield Court / Wellwynd alterations	339
Council House Re-roofing works	320
Corn Exchange, Haddington alterations & extension	226
Tranent North Primary School	205
Dunbar Town House Refurbishment	199
Housing Development at Drummohr Gdns & Fa'side Ave	189
Housing Development at Monkkrigg, Haddington	186
	<u>15,310</u>



### 13. Information on assets held

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

<b>Council dwellings</b>	8,069	<b>Infrastructure assets</b>	
<b>Operational buildings</b>		Roads	22
Council offices	24	Other	21
Libraries and museums	12		
Halls	15	<b>Community assets</b>	
Community and sports centres	28	Parks	97
Social work facilities	33	Play areas	82
Public toilets	31	Cemeteries	33
Waste facilities	2	Harbours and historic buildings	23
Depots and stores	22	Walkways	23
Secondary schools (land)	6	Civic valuables (items)	23
Pre-5 schools	5	Other	37
Primary schools	35		
Other	7	<b>Non-operational assets</b>	
<b>Vehicles and plant</b>		Commercial offices & shops	53
Vehicles and plant	97	Leased stores and workshops	71
		Other	65

### 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 2008/09 was £1.81m (2007/08: £1.99m). The SORP requires charges to be made evenly throughout the period of the lease.

The authority was committed at 31 March 2009 to make ongoing payments of £1.453m under operating leases, comprising the following elements:

	<b>Vehicles, Plant and Equipment £000s</b>
Leases expiring in 2009/10	159
Leases expiring between 2010/11 and 2014/15	1,254
Leases expiring after 2014/15	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 2008/09 were £228,000 (2007/08:



£228,000) – accounted for as £193,000 finance costs and £35,000 write-down of obligations. These assets have been leased from the 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 2008	1,870
Additions	1,189
Revaluations	1,505
Depreciation	(114)
Disposals	-
Value at 31 March 2009	<u>4,450</u>

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2009, accounted for as part of long-term liabilities, are as follows:

	Other Land and Buildings £000s
Obligations payable in 2009/10	35
Obligations payable between 2010/11 and 2014/15	177
Obligations payable after 2014/15	847
Total liabilities at 31 March 2009	<u>1,059</u>

#### 15. Assets recognised under a Public Private Partnership (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 2008/09 was £7.21m (2007/08: £7.21m). The partnership is planned to continue until 2034/35.

The contract payments in future years required under this agreement are estimated to total £247.91m (2007/08: £255.47m) as itemised below.

	£000s
Obligations payable in 2009/10	7,692
Obligations payable between 2010/11 and 2014/15	40,430
Obligations payable after 2014/15	199,785
Total liabilities at 31 March 2009	<u>247,907</u>



## 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	Historic Cost or nominal value	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
Intangible 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

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	Total £000s
<b>Cost or valuation</b>		
At 1 April 2008	1,591	1,591
Additions	590	590
Disposals	-	-
Reclassifications	-	-
Revaluations	-	-
At 31 March 2009	<u>2,181</u>	<u>2,181</u>
<b>Depreciation and impairments</b>		
At 1 April 2008	(486)	(486)
Charge for 2008/09	(700)	(700)
At 31 March 2009	<u>(1,186)</u>	<u>(1,186)</u>
Balance Sheet Amount at 31 March 2009	<u>995</u>	<u>995</u>
Balance Sheet Amount at 1 April 2008	<u>1,105</u>	<u>1,105</u>

## 19. Analysis of net assets employed

	31 March 2009 £000s	31 March 2008 £000s
General Services	185,927	203,044
Housing Revenue Account	235,516	264,612
Total	<u>421,443</u>	<u>467,656</u>

## 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 2008 the net assets of the group amounted to £43.60m (31 December 2007: £54.92m) after a year in which a profit on ordinary activities before taxation of £0.98m (31 December 2007: £10.2m) was returned. During the year the Council received final dividends totalling 34.35p per share (2007/08: 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 2009 show net assets of £0.395m (31 March 2008: £0.402m), and a loss before taxation of £0.008m (31 March 2008: profit of £0.006m). No dividend was received.



These accounts also include the Council's interest, estimated as 40%, 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 2009 amounted to £0.246m (31 March 2008: £0.247m). The results for the period to 31 March 2009 showed a loss after taxation of £0.002m (31 March 2008: £0.020m). 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 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 2008 £000s	31 March 2009 £000s	31 March 2008 £000s	31 March 2009 £000s
<b>Borrowing</b>				
Financial liabilities at amortised cost	(162,637)	(172,622)	(6,849)	(6,504)
<b>Investments</b>				
Loans and receivables	40,738	40,854	12,274	7,162
Unquoted equity investment at fair value	2,220	1,856	-	-
Total investments	42,958	42,710	12,274	7,162

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

	2008/09 £000s	2007/08 £000s
Interest expense	8,855	8,319
Interest income	(782)	(1,368)
Dividends	(69)	(120)
Net (gain)/loss for the year	8,004	6,831

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 2009 of between 1% and 4.5% for loans from the PWLB and between 0.4% and 4.3% 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 2009		31 March 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000s	£000s	£000s	£000s
Financial liabilities at amortised cost	(179,126)	(188,494)	(169,486)	(180,456)
Loans and receivables	48,016	48,016	53,012	53,012

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).

Interest due on 31 March 2009 is added to the outstanding asset or liability. Loans with stepped interest rates are valued on a basis of average interest applied over the whole loan period.

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. Although all market loans may be terminated by the lender, we have received no indication that these will end before their full term.

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 2009	31 March 2008
	£000s	£000s
<i>Loan Type</i>		
Public Works Loan Board	(133,220)	(123,700)
Finance leases	(1,059)	(1,034)
Intra-group loans	(4,721)	(5,013)
Market loans	(40,126)	(39,739)
	<u>(179,126)</u>	<u>(169,486)</u>
<i>Loan Maturity</i>		
Repayable after more than 10 years	(137,303)	(153,648)
Repayable between 5 and 10 years	(5,065)	(6,965)
Repayable between 2 and 5 years	(29,695)	(1,442)
Repayable between 1 and 2 years	(559)	(582)
Long-term borrowing	<u>(172,622)</u>	<u>(162,637)</u>
Repayable within 1 year	(6,504)	(6,849)
	<u>(179,126)</u>	<u>(169,486)</u>



### *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

	Employee pay and grading £000s	Housing Associations - development funds £000s	Total £000s	Previous Year £000s
Balance at 1 April 2008	1,274	768	2,042	1,711
Expended during the Year	(1,274)	-	(1,274)	(49)
Additions to the Provision	-	432	432	380
Balance at 31 March 2009	-	1,200	1,200	2,042

future costs.

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 final payment was made during 2008/09.



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

## 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 2008 £000s	Net Movement in Year £000s	Balance 31 March 2009 £000s	Purpose of Reserve	Further Detail of Movements
Revaluation Reserve	(1,143)	(976)	(2,119)	Store of gains on revaluation of fixed assets	See next table
Available-for-sale Financial Instruments Reserve	(1,220)	364	(856)	Store of gains on revaluation of long-term investments	See next table
Capital Adjustment Account	(479,263)	12,319	(466,944)	Store of capital resources set aside to meet past expenditure	See next table
Financial Instruments Adjustment Account	5,351	130	5,481	Store of losses on revaluation of financial instruments	See next table
Pensions Reserve	22,722	36,560	59,282	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	(960)	(144)	(1,104)	Resources available to meet future liabilities	See next table
Housing Revenue Account Balance	(1,380)	(1,241)	(2,621)	Resources available to meet future running costs for council houses	HRA Statements
General Fund Balance	(8,822)	(799)	(9,621)	Resources available to meet future running costs for non-housing services	Statement of Movement on the General Fund Balance
Total	(467,656)	46,213	(421,443)		



	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 2008	(1,143)	(1,220)	(479,263)	5,351	(2,941)	(960)
Movement in 2008/09						
Revaluation of assets	(1,011)	364	2,198	-	-	-
Disposal of assets	-	-	-	-	(5,223)	-
Impairment of assets	-	-	383	-	-	-
Deferred grant release	-	-	(2,145)	-	-	-
Depreciation	35	-	23,630	-	-	-
PPP residual asset	-	-	27	-	-	-
Finance capital expenditure	-	-	(5,197)	-	5,223	-
Finance lease repayment	-	-	-	-	-	-
Revaluation of borrowing	-	-	-	386	-	-
Provision for loan repayment	-	-	(6,577)	(256)	-	-
Surplus for year	-	-	-	-	-	(144)
Balance 31 March 2009	(2,119)	(856)	(466,944)	5,481	(2,941)	(1,104)

### Earmarked General Fund Reserves

At 31 March 2009, the following general fund balances were earmarked for a particular purpose:

	Drug Alcohol Action Team	Shared Services Diagnostic Project	Departmental Reserves	Total
	£000s	£000s	£000s	£000s
Balance 1 April 2008	341	92	-	433
Movement in 2008/09				
Used during year	(100)	(92)	-	(192)
Surplus during year	-	-	686	686
Balance 31 March 2009	241	-	686	927

## 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.

The Council has been subjected to compensation claims under equal pay legislation. At 31 March 2009 most of these have been settled but a small number remain within the Employment Tribunal process. The value of these claims have yet to be finalised but are expected to be insignificant.



## 25. Authorisation of accounts for issue

As the proper officer, the Head of Finance 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 2009 and the audited accounts were authorised for issue on 30<sup>th</sup> September 2009.

## 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.

	2008/09	2008/09	31 March 2009	31 March 2009
	Income	Expenditure	Assets	Liabilities
	£000s	£000s	£000s	£000s
Richardson Bequest <i>To provide housing for deserving residents of Haddington</i>	(75)	107	1,264	-
John Hume Fund <i>To provide for the upkeep of property, and support building apprentices</i>	(28)	12	390	-
Wrights and Masons Trust <i>To provide for the upkeep of property, and to promote secondary education</i>	-	86	188	(48)
Dunbar Memorial Fund <i>To provide care and assistance to elderly residents of Haddington</i>	(9)	24	146	-
Browns Bequest <i>To provide dental treatment for the poor of Musselburgh</i>	(10)	15	168	-
James McKelvie Trust <i>To provide assistance to homeless people passing through Musselburgh</i>	(8)	12	138	-

## 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 2009, unused school funds amounted to £0.391m (2007/08: £0.537m). Of this sum 33 (2007/08: 33) schools have a carry-forward surplus of £0.481m (2007/08: £0.617m) while 10 (2007/08: 12) schools have a carry-forward deficit of £0.091m (2007/08: £0.08m).



## 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:

	2008/09 £000s	2007/08 £000s
<b>Income and Expenditure Account</b>		
<i>Net Cost of Services:</i>		
Current service cost	7,207	10,686
Past service costs	-	130
Settlements & Curtailments	-	-
<i>Net Operating Expenditure:</i>		
Interest cost	19,088	16,885
Expected return on assets in the scheme	(18,546)	(18,828)
<i>Net Charge to the Income and Expenditure Account</i>	<u>7,749</u>	<u>8,873</u>
 <i>Statement of Movement in the General Fund Balance</i>		
Reversal of net charges made for retirement benefits in accordance with FRS 17	<u>(7,749)</u>	<u>(8,873)</u>
 Actual amount charged against the General Fund Balance for pensions in the year	<u>11,986</u>	<u>11,039</u>



Amount Recognised in Statement of Total Recognised Gains and Losses (STRGL):

	31 March 2009 £000s	Restated 31 March 2008 £000s
Actuarial (Gains) / losses	40,798	(28,971)
Actuarial (Gains) / losses recognised in STRGL	40,798	(28,971)
Cumulative Actuarial (Gains) and Losses	26,965	(13,833)

### Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	31 March 2009 £000s	Restated 31 March 2008 £000s
Opening Defined Benefit Obligation	(277,654)	(309,850)
Current Service Cost	(7,207)	(10,686)
Interest Costs	(19,088)	(16,885)
Contributions by Scheme participants	(3,336)	(3,062)
Actuarial gain / (losses)	29,871	54,829
Benefits paid	12,223	8,130
Past service costs	-	(130)
Closing Defined Benefit Obligation	(265,191)	(277,654)

Reconciliation of fair value of the scheme assets:

	31 March 2009 £000s	Restated 31 March 2008 £000s
Opening Fair Value of Employer Assets	254,932	255,985
Expected rate of return	18,546	18,829
Actuarial gain / (losses)	(70,668)	(25,853)
Employer contributions	11,986	11,039
Contributions by scheme participants	3,336	3,062
Benefits paid	(12,223)	(8,130)
Closing Defined Benefit Obligation	205,909	254,932

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



## Scheme History

	Restated 2004/05	Restated 2005/06	Restated 2006/07	Restated 2007/08	2008/09
	£000s	£000s	£000s	£000s	£000s
Present value of liabilities	(258,640)	(313,936)	(309,850)	(277,654)	(265,191)
Fair value of employer assets	175,980	232,354	255,985	254,932	205,909
Surplus / (deficit)	<u>(82,660)</u>	<u>(81,582)</u>	<u>(53,865)</u>	<u>(22,722)</u>	<u>(59,282)</u>

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £59.3m 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 Council 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.

The main financial assumptions in the actuaries' calculations were:

	2008/09	2007/08
Rate of inflation	3.1%	3.6%
Rate of increase in salaries	4.6%	5.1%
Rate of increase in pensions	3.1%	3.6%
Rate for discounting scheme liabilities	6.9%	6.9%
Take-up of option to convert annual pension into retirement grant	50.0%	25.0%

The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	31 March 2009 %	31 March 2008 %
Equities	79.0	75.9
Bonds	11.0	8.9
Property	10.0	11.9
Cash	0.0	3.3
	<u>100.0</u>	<u>100.0</u>

The breakdown of the expected return on assets by category were:

	31 March 2009 %	31 March 2008 %
Equities	7.0	7.7
Bonds	5.4	5.7
Property	4.9	5.7
Cash	4.0	4.8



Life expectancy is based on the PFA92 and PMA92 'year of birth' tables. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	<b>Males</b>	<b>Females</b>
Current Pensioners	19.8 years	22.8 years
Future Pensioners	21.0 years	24.0 years

### History of experience gains and losses

The actuarial gains identified as movements on the Pensions Reserve in 2008/09 can be analysed into the following categories as at 31 March 2009:

	<b>Restated 2004/05</b>	<b>Restated 2005/06</b>	<b>Restated 2006/07</b>	<b>Restated 2007/08</b>	<b>2008/09</b>
	£000s	£000s	£000s	£000s	£000s
Fair value of employer assets	175,980	232,354	255,985	254,932	205,909
Present value of defined benefit obligation	(258,640)	(313,936)	(309,850)	(277,654)	(265,191)
Surplus / (deficit)	(82,660)	(81,582)	(53,865)	(22,722)	(59,282)
Experience gains / (losses) on assets	5,363	36,894	1,522	(25,853)	(70,668)
Experience gains / (losses) on liabilities	(2,457)	(1,559)	2,404	(17)	6,225

### Projected Pension Expenses for the year to 31 March 2010

	<b>31 March 2010 £000s</b>
Projected current service cost	6,308
Interest on obligation	18,299
Expected return on plan assets	(13,745)
Past service cost	1,660
Losses / (gains) on curtailments and settlements	-
<b>Total</b>	<b>12,522</b>
 Employer's Contributions	 <b>11,318</b>

### 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 2008/09, the Council paid £4.70m (2007/08: £4.67m) to Teachers' Pensions in respect of teachers' retirement benefits, representing 13.5% (2007/08: 13.5%) 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 2008/09, the Council paid £0.40m (2007/08: £0.40m) to Teachers' Pensions in respect of these retirement benefits.

### Ex-Gratia Scheme

Under Regulation 45 of The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998, the Council awarded an Ex-Gratia discretionary allowance to retiring employees in respect of service for which they were ineligible to join the pension fund prior to 1986.

In 2008/09, the Council paid £0.06m (2007/08: £0.06m) to individuals. The estimated value of future liabilities based on actuarial mortality estimates is £0.57m.

### 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 2009 £000s	31 March 2008 £000s	Purpose
PPP Contractor - assets transferred under contract	31,680	32,931	Schools transferred to PPP contractor paid for over the contract
Assets being acquired under PPP Contract	7,650	6,426	Value of the PPP properties that will be acquired at the end of the contract
Private property owners - common repairs	549	534	Repairs to private property funded by secured ELC loans
Employees - car loans	542	411	Loans to employees repaid over 3-5 years
North Berwick Trust	407	407	Loan secured on land
Other	26	29	
<b>Total</b>	<b>40,854</b>	<b>40,738</b>	



**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 2009 £000s	31 March 2008 £000s	Purpose
Short-term deposits with financial institutions	5,076	10,017	Temporary investment of surplus funds
Musselburgh Joint Racing Committee	2,086	2,257	Bank overdraft
Total	<u>7,162</u>	<u>12,274</u>	

**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 2009 £000s	31 March 2008 £000s
Taxpayers - Council Tax	8,943	9,548
Customers - Goods & Services	8,559	10,229
Taxpayers - Community Charge	8,061	8,174
UK Government - VAT & Grants	2,741	2,292
Scottish Government - Revenue Grants	458	1,979
Funders - Capital Projects	177	1,482
Tenants - Council House Rents	1,247	1,361
Other debtors	315	688
Total	<u>30,501</u>	<u>35,753</u>

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

	31 March 2009 £000s	31 March 2008 £000s
Taxpayers - Council Tax	(7,901)	(8,529)
Customers - Goods & Services	(1,971)	(2,238)
Taxpayers - Community Charge	(8,061)	(8,174)
Tenants - Council House Rents	(945)	(869)
Total	<u>(18,878)</u>	<u>(19,810)</u>



**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 2009 £000s	31 March 2008 £000s
Suppliers and grant recipients	(12,622)	(14,174)
Income received in advance	(3,742)	(3,631)
UK Government - tax and national insurance deductions	(2,761)	(2,297)
Pension Funds - employee and employer contributions	(1,902)	(1,813)
Employees - work in March paid in April	(1,078)	(1,137)
<b>Total</b>	<b>(22,105)</b>	<b>(23,052)</b>

**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 2008	(43,333)
New grants received	(9,515)
Released to income	2,145
<b>Balance at 31 March 2009</b>	<b>(50,703)</b>

**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 2009 £000s	31 March 2008 £000s	Purpose
Developers' contributions to future capital investment projects	(4,798)	(6,117)	Funding retained until project is completed
Rental income received in advance	(738)	(580)	Income to be released over the lease period
PPP income received in advance	(331)	(343)	Income to be released over the contract period
<b>Total</b>	<b>(5,867)</b>	<b>(7,040)</b>	



**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*

	2008/09	Restated 2007/08
	£000s	£000s
General Services Deficit for Year	3,864	1,855
Interest Paid (Net)	(7,360)	(6,591)
Finance Lease Payments	(228)	(228)
Depreciation and impairment of fixed assets	(24,411)	(20,776)
Deferred asset written down	(27)	(27)
Government Grants Deferred amortisation	2,145	1,847
Net gains on sale of fixed assets	5,223	4,810
Net charges made for retirement benefits in accordance with FRS 17	(7,749)	(8,873)
Employer's contributions payable to the Lothian Pension Fund	11,986	11,039
Financial Instrument Valuation Adjustments	204	204
(Increase)/decrease in revenue long term-debtors & liabilities	697	(699)
Increase in stock	2	2
Decrease in other current assets	(1,819)	(1,085)
Decrease in revenue creditors	(575)	(475)
<b>NET CASH (INFLOW) FROM REVENUE ACTIVITIES</b>	<b>(18,048)</b>	<b>(18,997)</b>

*Reconciliation of movement in cash to movement in net debt*

	2008/09	2007/08
	£000s	£000s
Decrease in short-term loans	(5,112)	(19,910)
(Increase)/decrease in short-term borrowing	345	(1,852)
(Increase)/decrease in long-term borrowing	(9,985)	10,506
(Increase)/decrease in net debt	(14,752)	(11,256)
Increase in long-term assets	24,836	23,783
Decrease in current assets	(4,316)	(1,311)
Increase in current liabilities	947	(1,234)
(Increase)/decrease in long-term liabilities	(41,915)	22,956
Unrealised (gains)/losses	44,276	17,348
<b>Movement in Cash</b>	<b>9,076</b>	<b>6,092</b>

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

	2008/09	Restated 2007/08
	£000s	£000s
Long-term loans decrease/(increase)	(9,985)	12,926
Short-term loans increase	(4,827)	(21,665)
Fixed Assets acquired under finance lease	1,059	1,034
Market loan revaluation	(612)	492
Long-term debtors Increase	143	58
<b>Financing Inflow per statement</b>	<b>(14,222)</b>	<b>(7,155)</b>



*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*

	2008/09 £000s	2007/08 £000s
Supporting People Grant	-	(7,683)
Specific Grant - Sheltered Employment	(70)	(59)
Specific Grant - Mental Illness	-	(223)
Specific Grant - Social Work Training	-	(116)
Specific Grant - Education National Priorities Action Fund	(407)	(4,381)
Other Education Grants	(1,053)	(3,289)
Other Grants	(5,631)	(8,171)
	<u>(7,161)</u>	<u>(23,922)</u>



## Housing Revenue Account

## Income and Expenditure Account

2007/08		2008/09	
£000s		£000s	£000s
<b>Income</b>			
(16,290)	Dwelling rents	(16,946)	
(294)	Non-dwelling rents	(311)	
(381)	Service charges	(387)	
(292)	Other income	(326)	
<u>(17,257)</u>	<b>Total Income</b>		<u>(17,970)</u>
<b>Expenditure</b>			
6,240	Repairs and maintenance	6,481	
5,643	Supervision and management	5,791	
9,137	Depreciation and impairment of fixed assets	10,211	
105	Increase in bad debt provision	211	
1,070	Other expenditure	1,121	
<u>22,195</u>	<b>Total Expenditure</b>		<u>23,815</u>
4,938	<b>Net cost of HRA services as included in the whole authority I&amp;E account</b>		5,844
168	HRA services share of Corporate and Democratic Core		130
3	HRA share of other amounts included in the whole authority Net Cost of Services but not allocated to specific services		-
<u>5,109</u>	<b>Net Cost of HRA Services</b>		<u>5,974</u>
(4,695)	Gain on sale of HRA fixed assets	(5,281)	
754	Interest payable and similar charges	1,042	
(135)	Interest and investment income	(113)	
(49)	Pensions interest cost and expected return on pensions assets.	14	
<u>984</u>	<b>Deficit for the year on HRA services</b>		<u>1,636</u>



# Housing Revenue Account

## Statement of Movement on the HRA Balance

2007/08 £000s		2008/09 £000s
984	Deficit for the year on the HRA Income and Expenditure Account	1,636
(3,840)	Net additional amount required by statute to be credited to the HRA Balance for the year	(3,865)
1,976	HRA Balance transferred to General Services	988
(880)	(Increase) or decrease in the Housing Revenue Account Balance	(1,241)
(500)	Housing Revenue Account surplus brought forward	(1,380)
(1,380)	Housing Revenue Account surplus carried forward	(2,621)

## Note to the Statement of Movement on the HRA Balance

2007/08 £000s		2008/09 £000s	£000s
	<b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>		
(8,861)	Depreciation and impairment of fixed assets	(9,648)	
4,695	Gain or loss on sale of HRA fixed assets	5,281	
(184)	Net charges made for retirement benefits in accordance with FRS 17	(147)	
(4,350)			(4,514)
	<b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b>		
239	Employer's contributions payable to the Lothian Pension Fund	258	
271	Loans fund principal	391	
-	Capital expenditure funded by the HRA	-	
510			649
(3,840)	Net additional amount required by statute to be credited to the HRA Balance for the year		(3,865)



## 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.

2007/08 £000s	2008/09 £000s
(49,010) <b>Gross council tax levied and contributions in lieu</b>	(49,735)
13 Council tax benefits (net of government grant)	37
Less :	
4,019 Other discounts and reductions	4,088
(203) Provision for bad and doubtful debts	546
(45,181)	(45,064)
190 Adjustments to previous years' community charge and council tax	197
(44,991) <b>Transfer to General Fund</b>	(44,867)

## 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.

2007/08 £000s	2008/09 £000s
<b>Rates contributable to National Pool</b>	
(20,902) Gross rates levied & contributions in lieu (including transitional relief)	(22,721)
4,186 Reliefs and other deductions	5,445
18 Payment of interest	19
7 Provision & bad debts written off	7
(16,691)	(17,250)
157 Adjustments for years prior to introduction of national non-domestic rate pool	456
(16,534) <b>Net non-domestic rates collected</b>	(16,794)
(33,509) <b>Contribution from the National Non-domestic Rate Pool</b>	(35,609)



## 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.

2007/08		2008/09	
£000s		£000s	£000s
Income and Expenditure Account for year			
	<b>Expenditure</b>		
2	Employees		2
40	Premises-related Expenditure		57
60	Supplies and Services		32
33	Third Party Payments		30
16	Depreciation		70
<u>151</u>			<u>191</u>
	<b>Income</b>		
(473)	Rents and other income		(542)
(98)	Loan Interest		(80)
<u>(571)</u>			<u>(622)</u>
<u>(420)</u>	<b>(Surplus)/Deficit for the Year</b>		<u>(431)</u>
	<b>Common Good Fund</b>		
(2,047)	Balance brought forward on 1 April		(2,467)
(420)	(Surplus)/Deficit for the Year		(431)
<u>(2,467)</u>	Fund balance as at 31 March		<u>(2,898)</u>
<b>Balance Sheet as at 31 March</b>			
	<b>Tangible Fixed Assets</b>		
718	Community Assets		2,343
1,686	Non-operational Investment Properties		-
<u>2,404</u>			<u>2,343</u>
1,098	<b>Long-term Debtors</b>		1,098
	<b>Current Assets</b>		
5	Sundry Debtors	7	
2,319	Short-term Loans	<u>2,797</u>	
<u>2,324</u>			<u>2,804</u>
	<b>Current Liabilities</b>		
(12)	Sundry Creditors		(2)
<u>5,814</u>	<b>Total assets less liabilities</b>		<u>6,243</u>
	<b>Represented By:</b>		
(66)	Revaluation Reserve		(66)
(3,281)	Capital Adjustment Account		(3,279)
(2,467)	Common Good Fund		(2,898)
<u>(5,814)</u>			<u>(6,243)</u>



## 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. Since 1 April 2008, Brunton Theatre Trust is no longer accounted for as a Council Trust as the Council are not the majority trustees.

Restated 2007/08 £000s		2008/09 £000s
<b>Income and Expenditure Account for the year</b>		
	<i>Income</i>	
(131)	Investment Income	(91)
(93)	Surplus on Sale of Investments	-
(21)	Rents & Other Income	(32)
<u>(245)</u>		<u>(123)</u>
	<i>Expenditure</i>	
65	Grants & Events	56
9	Property Costs	83
-	Loss on Sale of Investments	134
<u>74</u>		<u>273</u>
<u>(171)</u>	<i>(Surplus)/Deficit for Year</i>	<u>150</u>
<b>Balance Sheet as at 31 March</b>		
	<i>Long-term Assets</i>	
407	Land & Buildings	407
2,306	Investments	1,764
<u>2,713</u>		<u>2,171</u>
	<i>Net Current Assets</i>	
570	Short-term Loans	633
2	Less Current Assets/(Liabilities)	(51)
<u>572</u>		<u>582</u>
<u>3,285</u>	<i>Net Assets</i>	<u>2,753</u>
	<i>Represented By:</i>	
(278)	Capital Adjustment Account	(278)
(1,213)	Available for Sale Reserve	(832)
(1,794)	Accumulated Funds	(1,643)
<u>(3,285)</u>		<u>(2,753)</u>



## 1. Housing Revenue Account

### Number and type of dwellings

	Stock at 1 April 2008	Sold in year	New Build	Bought in year	Stock at 31 March 2009
2 Apartment	1,638	3	-	2	1,637
3 Apartment	4,227	27	11	5	4,216
4 Apartment	2,010	22	4	7	1,999
5 Apartment	215	-	-	2	217
	<u>8,090</u>	<u>52</u>	<u>15</u>	<u>16</u>	<u>8,069</u>

### Bad or Doubtful Debts

At the year-end, outstanding arrears totalled £1.25m (2007/08: £1.26m) or 7.0% (2007/08: 7.4%) of the rent collectable. A provision of £0.95m (2007/08: £0.86m) has been set aside in respect of uncollectable arrears.

## 2. Council Tax Income

### Calculation of Council Tax Base

	COUNCIL TAX BAND								Total
	A	B	C	D	E	F	G	H	
Properties	1,178	9,368	13,860	5,219	5,390	4,035	3,361	538	42,949
Disabled Relief	1	26	95	25	23	31	20	2	223
Less :									
Exemptions	(67)	(274)	(256)	(119)	(96)	(37)	(36)	(15)	(900)
Discounts (net effect)	(174)	(1,228)	(1,474)	(489)	(375)	(249)	(188)	(26)	(4,203)
Effective Properties	<u>938</u>	<u>7,892</u>	<u>12,225</u>	<u>4,636</u>	<u>4,942</u>	<u>3,780</u>	<u>3,157</u>	<u>499</u>	<u>38,069</u>
Ratio to Band D	6/9	7/9	8/9	9/9	11/9	13/9	15/9	18/9	
Band D Equivalents	625	6,138	10,867	4,636	6,040	5,460	5,262	998	40,026
Provision for non-payment (3%)									(1,201)
Council Tax Base									<u>38,825</u>
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 1 April 2008

	Number	Rateable Value £000
Shops, Offices and other Commercial Subjects	1,271	17,878,540
Industrial and Freight Transport	782	10,268,685
Miscellaneous (Schools etc)	1,125	21,748,170
	<u>3,178</u>	<u>49,895,395</u>



*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 46.2p (2007/08: 44.4p) per pound for properties with rateable value of £29,000 or more and 45.8p (2007/08: 44.1p) for those with a rateable value of less than £29,000. From 1 April 2008 additional relief was available for those with a rateable value of under £15,000.

**4. Common Good Fund**

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

*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 2008	718	1,686	2,404
<i>Movement in 2008/09</i>			
Additions	10	-	10
Disposals	-	-	-
Revaluations	(1)	-	(1)
Depreciation	(70)	-	(70)
Impairments	-	-	-
Internal Transfers	1,686	(1,686)	-
Net book value of assets at 31 March 2009	2,343	-	2,343

*Long-term Debtors*

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

	£000s
Income receivable in 2009/10	(35)
Income receivable between 2010/11 and 2014/15	(177)
Income receivable after 2015/16	(847)
Total assets at 31 March 2009	<u>(1,059)</u>

The balance of the long-term debtor shown in the balance sheet (£39,000) 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 2009 as:

	Dunbar £000	Hadding- ton £000	Mussel- burgh £000	North Berwick £000	Total £000
Balance brought forward on 1 April 2008	(23)	(345)	(1,996)	(103)	(2,467)
(Surplus)/Deficit for the Year	(10)	(37)	(360)	(24)	(431)
Fund balance as at 31 March 2009	(33)	(382)	(2,356)	(127)	(2,898)
Net Assets	598	446	4,839	360	6,243

**5. Charitable Trusts**

From 1 April 2008, the Brunton Theatre Trust Board membership was split 50:50 with council members and others. As there is no longer a majority of council members this trust does not appear as part of the Trust Funds.

*In-year Financial Performance*

During the year 2008/09, the Trust Funds operated at a deficit of £150,000 (2007/08: surplus of £171,000), which contributed towards a decrease in their overall value from £3.285m to £2.753m by 31 March 2009.

*Property Asset Valuation*

For most Trust property assets, an independent valuer assesses the value of land and buildings every five years based on the open market value for existing use.

*Market Investment Valuation*

Investments are valued each year by the Trusts' investment managers based on the listed market value of each investment on 31 March. The largest investments held by the Trusts on 31 March 2009 were:

2007/08 £000	Investment	2008/09 £000
481	Investec Fund Managers International Equity Account	379
122	UK Treasury Sep 07	-
-	UK Treasury July 14	105
105	Shell Ordinary Shares Eur 0.07	77
79	Vodafone Group Ordinary Shares US \$0.11	51
75	British Petroleum Ordinary Shares US \$0.25	61
66	HSBC Holdings Ordinary Shares US \$0.50	-
-	HSBC Investments (UK) Sterling Liquidity B	140
1,378	Other stocks, shares and cash	951
<u>2,306</u>	<b>Total</b>	<u>1,764</u>



## 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.

Previous year Net Expenditure £000s		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
2,102	Central services	14,204	(13,056)	1,148
16,826	Cultural and related services	26,208	(9,555)	16,653
79,250	Education services	96,653	(11,280)	85,373
9,007	Environmental services	11,727	(1,194)	10,533
2,233	Housing services (non-HRA)	24,605	(20,319)	4,286
11,765	Joint Board requisitions	12,078	-	12,078
4,938	Local authority housing (HRA)	24,053	(18,079)	5,974
1,868	Planning & development services	4,168	(1,540)	2,628
8,799	Roads and transport services	16,802	(7,424)	9,378
41,501	Social Work services	60,910	(7,389)	53,521
2,262	Corporate and democratic core	1,898	-	1,898
130	Non-distributed costs	-	-	-
180,681	Gross Expenditure, Income and Net Expenditure of the Group	293,306	(89,836)	203,470
635	Share of (Surplus)/Deficit of Associates	26,355	(27,261)	(906)
181,316	<b>Net Cost of Services</b>	319,661	(117,097)	202,564
(4,810)	Gains on the disposal of fixed assets			(5,223)
(6)	Share of gains on the disposal of fixed assets of Associates			(14)
8,440	Interest payable and similar charges			8,932
168	Share of interest payable of Associates			174
(1,753)	Interest and investment income			(1,037)
(112)	Share of interest and investment income of Associates			(70)
(1,943)	Pensions interest cost and expected return on pensions assets			542
6,744	Share of pensions interest cost and expected return on pensions assets of Associates			7,269
188,044	<b>Net Operating Expenditure</b>			213,137
(44,991)	Council tax			(44,867)
(15)	Community charge arrears			(23)
(100,837)	General government grants			(122,775)
(33,509)	Non-domestic rates redistribution			(35,609)
8,692	<b>(Surplus)/Deficit for the Year</b>			9,863



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

Previous Year £000s		Current Year £000s
1,855	(Surplus)/Deficit for the year on the Authority Income and Expenditure Account	3,864
1,855	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to the Authority	3,864
(592)	(Surplus)/Deficit in the Group Income and Expenditure Account attributable to Group entities;	
	Subsidiaries	(454)
7,429	Associates	6,453
8,692	(Surplus)/Deficit for the year on the Group Income and Expenditure Account	9,863

## Group Statement of Total Recognised Gains and Losses

Previous Year £000s		Current Year £000s
8,692	(Surplus)/Deficit for the year on the Income and Expenditure Account	9,863
4	(Surplus)/Deficit arising on financial instruments	1
2,234	(Surplus)/Deficit arising on revaluation of fixed assets	(834)
(1,220)	(Surplus)/Deficit arising on revaluation of available-for-sale financial assets	745
226	(Surplus)/Deficit arising on revaluation of investments	(821)
-	(Surplus)/Deficit arising on Capital Adjustment Account	3
(52)	Other (gains)/losses included in the STRGL	2
(58,581)	Actuarial (gains) /losses on pension fund assets and liabilities	40,526
(48,697)	Total recognised (gains)/losses for the year	49,485
	<i>Prior period adjustments</i>	
343	Deficit arising from the revaluation of interest on stepped loans prior to 1 April 2007	-
(48,354)	(Increase)/decrease in Balance Sheet value	49,485



## Group Balance Sheet as at 31 March 2009

Restated 31 March 2008	31 March 2009
£000s	£000s
<b>Fixed assets</b>	
1,105 <b>Intangible fixed assets</b>	995
<b>Operational assets</b>	
222,133 Council dwellings	235,518
361,326 Other land and buildings	359,258
6,970 Vehicles, plant, furniture and equipment	7,901
41,407 Infrastructure assets	45,191
9,733 Community assets	18,369
<b>Non-operational assets</b>	
18,772 Investment properties	16,070
3,872 Assets under construction	5,382
1,004 Surplus assets held for disposal	964
<b>666,322 Total fixed assets</b>	<b>689,648</b>
1,420 Long-term investments	1,056
40,802 Long-term debtors	40,893
2,306 Other Investments	1,764
<b>710,850 Total long-term assets</b>	<b>733,361</b>
<b>Current assets</b>	
423 Stocks and work in progress	427
12,256 Short-term loans	7,142
13,899 Debtors and prepayments	9,823
3,708 Cash and bank	-
<b>741,136 Total assets</b>	<b>750,753</b>
<b>Current liabilities</b>	
(3,942) Borrowing repayable on demand or within 12 months	(1,995)
(23,591) Creditors	(22,702)
- Cash and bank	(5,374)
<b>(27,533)</b>	<b>(30,071)</b>
<b>713,603 Total assets less current liabilities</b>	<b>720,682</b>
<b>Long-term liabilities</b>	
(161,638) Borrowing repayable within a period in excess of 12 months	(172,622)
(2,042) Provisions	(1,200)
(43,333) Government grants and other contributions deferred	(50,703)
(7,040) Deferred liabilities	(5,867)
(22,722) Liability related to defined pension benefit schemes	(59,282)
(100,675) Investments in associates and joint ventures	(104,340)
<b>376,153 Total assets less liabilities</b>	<b>326,668</b>
<b>Financed by</b>	
(1,282) Revaluation Reserve	(3,764)
(1,220) Available-for-sale Financial Instruments Reserve	(856)
(488,007) Capital Adjustment Account	(476,257)
5,361 Financial Instruments Adjustment Account	5,497
129,722 Pensions Reserve	171,296
(2,941) Capital Fund	(2,941)
(1,213) Investments Revaluation Balance	(832)
(960) Insurance Fund	(1,104)
(1,380) Housing Revenue Account Balance	(2,621)
- Called Up Share Capital	-
(14,233) General Fund Balance	(15,086)
<b>(376,153) Total net worth</b>	<b>(326,668)</b>



## 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	Current Year	
	£000s	£000s
(19,824) <b>Net Cash (Inflow)/Outflow from Revenue Activities</b>		(18,395)
(120) <b>Dividends</b>		(69)
<b>Returns on Investments and Servicing of Finance</b>		
9,240 Interest paid	8,059	
Interest element of finance lease	253	
(1,992) Interest received	(994)	
<u>7,248</u>		7,318
- <b>Taxation</b>		-
<b>Capital Expenditure and Financial Investment</b>		
44,164 Purchase of fixed assets	50,033	
80 Purchase of long-term investments	(161)	
(10,259) Sale of fixed assets	(6,490)	
(8,791) Capital grants received	(9,502)	
<u>25,194</u>		33,880
- <b>Equity Dividends Paid</b>		-
- <b>Acquisitions &amp; Disposals</b>		-
<u>12,498</u> <b>Net Cash Inflow before Financing</b>		<u>22,734</u>
<b>Management of Liquid Resources</b>		
(19,214) Net increase/(decrease) in short term loans	(4,571)	
<b>Financing</b>		
24,715 Repayments of amounts borrowed	23,297	
Capital element of finance lease rental payments	(25)	
58 New loans made	143	
(11,984) New loans raised	(32,496)	(13,652)
<u>6,073</u> Net (increase)/decrease in cash		<u>9,082</u>



# 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 31/03/2009
Lothian & Borders Police Board	8.25%	Twelve months to 31/03/2009
Lothian & Borders Fire and Rescue Board	6.88%	Twelve months to 31/03/2009
SESTRANS	6.33%	Twelve months to 31/03/2009

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 31/03/2009
Common Good Accounts	100.00%	Twelve months to 31/03/2009
Charitable Trusts	100.00%	Twelve months to 31/03/2009
Musselburgh Joint Racing Committee	100.00%	Twelve months to 31/03/2009

No subsidiaries have been excluded.

The annual accounts for the Common Good Funds and Charitable Trusts are included at pages 53 to 54. The net value of the Charitable Trusts included within the Group Accounts is £2.75million. The nature of the assets is explained in Note 5 to the Supplementary Financial Statements on page 57.

The Council acts as a majority or sole Trustee for 87 Charitable Trusts, Bequests and other funds.

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



## **Nature of Combination**

### *Associates*

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

No shares are issued and the relative split of assets and reserves are in line with the Grant Aided Expenditure notified by the Scottish Executive.

### *Subsidiaries*

The Council is sole shareholder, at a cost of £800,000, in East Lothian Land Limited, set up in 2000 for the purpose of managing land to support economic development in East Lothian. The accounts for the last period of trading to 31 March 2009 show net assets of £395,000 (2008: £402,000), and a loss before taxation of £8,000 (31 March 2008: Profit of £6,000). The company has retained all profit. No dividend was received. The value of East Lothian Land is included within the Council accounts at the net asset value noted above.

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. This subsidiary has been incorporated in line with the draft financial statements made available to East Lothian Council.

This arrangement has been reviewed during 2008/09 and is expected to continue in future years with some amendment to the 1994 agreement. In preparation for these changes, accounting for fixed assets used by the racecourse has been changed in 2008/09 to make it consistent with Council accounting for fixed assets. Otherwise the review has not affected racecourse finances in 2008/09.

## **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 £95 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**

	<b>Total 2009</b>
General Services Deficit/(Surplus) for Year	3,398
Net Contribution from/(to) Reserves (excl interest)	-
Interest Paid (Net)	(7,251)
Finance Lease Payments	(228)
Depreciation and impairment of fixed assets	(24,589)
Deferred assets written down	(27)
Government Grants Deferred Amortised	2,145
Net gains on sale of fixed assets	5,223
Net charges for retirement benefits in accordance with FRS 17	(7,749)
Employer's contributions to the Lothian Pension Fund	11,986
Financial Instrument Valuation Adjustments	204
(Increase)/decrease in revenue long term-debtors & liabilities	697
Increase/(decrease) in stock	2
Increase/(decrease) in other current assets	(1,747)
(Increase)/decrease in revenue creditors	(462)
<b>NET CASH (INFLOW) FROM REVENUE ACTIVITIES</b>	<b>(18,398)</b>



## **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 2009 and up to the date of approval of the annual report and accounts.

### *The Internal Financial Control Environment*

#### *Main Features of the System*

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



*Role of Internal Audit and Management*

The arrangements for Internal Audit are designed to ensure the provision of an independent opinion on the adequacy and effectiveness of the system of internal financial control. Internal Audit report to the Head of Governance and Performance Management. They undertake an annual programme of work based on an annual audit plan approved by the Audit Committee and operate to relevant professional standards.

It is the responsibility of management to implement the recommendations made in the Internal Audit reports. For any audit recommendations not accepted, management are required to provide detailed responses to the Audit Committee.

*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 regular 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.

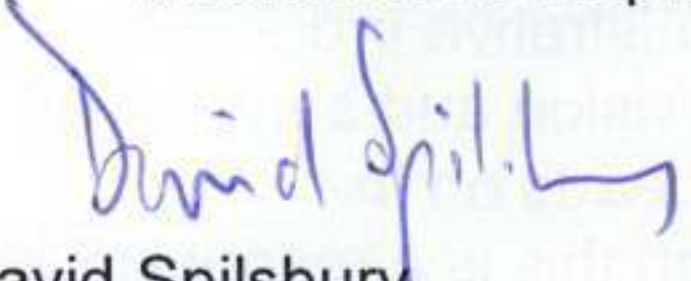
*Review of Effectiveness*

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 has been made towards achieving the improvements included in the Statement on the System of Internal Financial Control for 2007/08 and the need for further improvement has been identified in 2008/09 for the following:

- To strengthen the safeguarding of taxpayers' funds against the risk of fraud and error, a review of the current balance between process-based internal financial controls and reliance placed upon trust in key individuals is required.

  
David Spilsbury  
Head of Finance  
24 June 2009



## **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 for the year ended 31 March 2009 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 Head of Finance and auditor**

The Head of Finance's 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 2008 - A Statement of Recommended Practice (the 2008 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 give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of the Council 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 the Foreword by the Head of Finance. 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 Council 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 Head of Finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Council's circumstances, consistently applied and adequately disclosed.

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

### **Opinion**

In my opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2008 SORP, of the financial position of East Lothian Council as at 31 March 2009 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 2009 in respect of Sportplus.



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

**30 September 2009**